

Public Utilities

FORTNIGHTLY

Volume LI No. 8



April 9, 1953

**DREAMS THE TAXPAYER DIDN'T
HAVE TO PAY FOR
Part I.**

By J. Louis Donnelly

« »

Power in the Northeast

By Lincoln Smith

« »

Transit Operating Ratio—Another View

By Laurence S. Knappen

« »

Political Power of the Small Shareholder

By Ernest Frederick Lloyd

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VOLUME LI

APRIL 9, 1953

NUMBER 8



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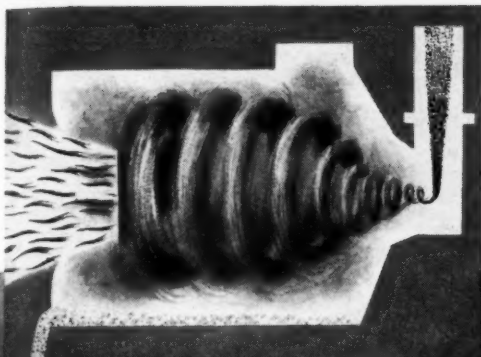
MAINTENANCE

AVAILABILITY

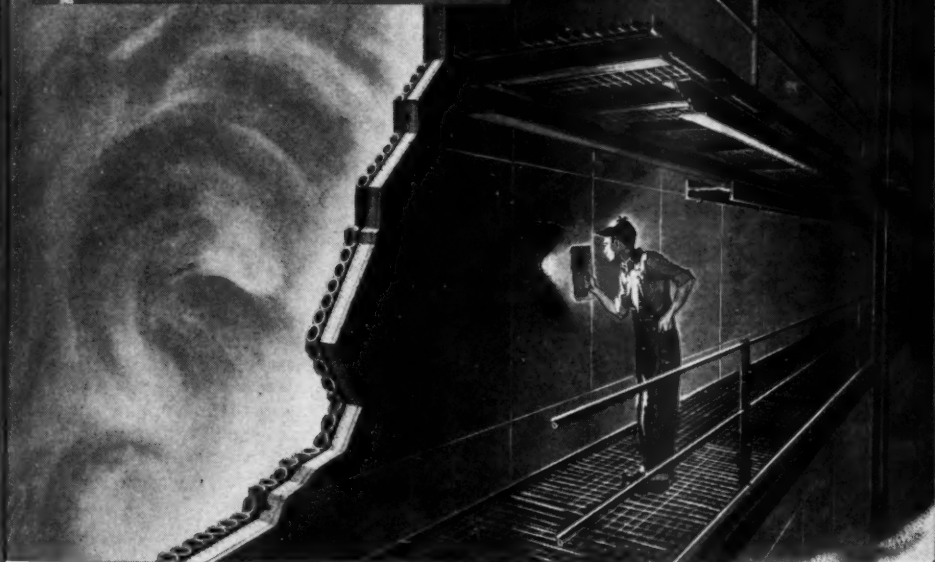
AUXILIARY POWER

	EFFICIENCY	MAINTENANCE	AVAILABILITY	AUXILIARY POWER	IN
CYCLONE FURNACE	<ul style="list-style-type: none"> • Efficient use of low-grade coals. • Extremely low carbon loss. • Low excess air. 	<ul style="list-style-type: none"> • Practically no ID fan erosion. • Eliminates pulverizer maintenance. • Low maintenance on burner and coal preparation equipment. • Reduces cost of labor for ash and dust handling. 	<ul style="list-style-type: none"> • Reduces slugging and cleaning of convection surfaces. 	<ul style="list-style-type: none"> • Eliminates pulverizers. • Less soot blowing required. 	<ul style="list-style-type: none"> • Lower fuel costs. • Greater reduction in equipment factors and reactions. • Motors and compressors.
PRESSURE FIRING	<ul style="list-style-type: none"> • Less stack loss . . . no air infiltration. 	<ul style="list-style-type: none"> • Fewer controls to maintain. • No ID fan maintenance. 	<ul style="list-style-type: none"> • Simplifies fan control. 	<ul style="list-style-type: none"> • Less total fan power due to lower volume, weight, and draft loss handled by FD fan. 	<ul style="list-style-type: none"> • Simple and stable operation.

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ACCEPTANCE

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- Greatly reduced fly ash emission requires less dust handling equipment . . . smaller precipitators
- Eliminates electrical connections and controls for PC motors
- Smaller soot blower compressor.

B&W's revolutionary method of firing is being used for boilers having steam capacities as high as 1,200,000 lb per hr., pressures to 2250 psi, and temperatures to 1050 F. Burning coal, oil, and gas. Total generating capacity of all Cyclone Furnace Boilers in service and on order is over 2,000,000 KW. Accumulated service-time on all units is nearly a half century.

- Simplified design lowers duct and stack costs
- ID fan can often be eliminated.

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G-59

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Pages with the Editors

ONE of the most significant happenings in the field of public utility regulation and the relation of utility industries with the Federal government was the recent 6-to-3 decision of the U. S. Supreme Court in the so-called Roanoke Rapids Case. This decision, upholding a license issued by the Federal Power Commission to the Virginia Electric & Power Company, brings to an end a long and controversial argument between two Federal agencies. To those who believe in regulation of private enterprise in the utility business, as distinguished from a steadily increasing acquisition of utility operations by the Federal government, the outcome may be viewed with much satisfaction.

HAD the Secretary of Interior prevailed in his contention that the Interior Department has a paramount interest in the reservation of natural resource development, the Federal Power Commission might just as well have closed up shop as an independent regulatory tribunal. Its licensing authority would shrink to a mere administrative gesture, dictated by the desires of the Secretary of Interior on whether he thought the Federal government should develop cer-



LINCOLN SMITH

tain areas. Private company hydro licenses would diminish in importance if they did not vanish altogether at the end of the so-called "recapture" period of those dams already built and operating.

LEAVING aside the ideological question of whether such domination of the FPC by a Federal operating agency such as the Interior Department would be the forerunner of socialization of the electric industry, the taxpayer would come in for some pretty heavy burdens under the Interior Department contention.

THIS thought lends particular point to the 2-part series of articles by J. LOUIS DONNELLY of the editorial staff of the *New York Journal of Commerce*, which begins in this issue. He has made a survey of various examples of projects built, financed, and operated by private companies. He has given it the provocative title "Dreams the Taxpayer Didn't Have to Pay for."

WE hear a good deal these days about the respective responsibility of the Federal and state governments for local public works and allied improvements.



J. LOUIS DONNELLY

APR. 9, 1953



What goes on at this Round Table?

• They could be exchanging ideas on new financing . . . discussing the cost of new money . . . hearing an expert appraisal of long-term trends for utilities.

Those present, in addition to the public utility executives, include experts from investment banking institutions, insurance companies, rating agencies—and from numerous other types of financial organizations.

Yes, this is a typical Public Utility

“Round Table” at the Irving. Last year alone, 145 representatives from 83 utility companies attended these sessions.

These “Round Tables,” now going into their sixth year, are one of the ways we seek to serve the public utility industry. As specialists in this field, we are constantly on the lookout for ways to be of practical help. If your company has an unusual problem, that’s the kind of challenge we welcome.

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Public Utilities Department—TOM P. WALKER, *Vice President in Charge*

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The Eisenhower administration has given considerable thought to developing more "home rule" responsibility for such programs. But little is heard of improvements which actually benefit the entire population of an area without a penny's expense to the taxpayer—Federal or state. These are improvements bought and paid for by business-managed utility companies, which also pay taxes on their operations over and above the "social dividend" which such company structures provide.

* * * *

THE Yankee element of our northeast area has many characteristic attributes—thrift, integrity, and leadership, to mention only three. But an increasingly rare characteristic in these days of paternalistic government hand-outs and subsidies is a spirit of independence. This New England attitude of paying one's own way and running one's own affairs is well illustrated in the controversy over a proposed Federal power development in that region. In his article "Power in the Northeast" (beginning on page 476), LINCOLN SMITH, a university professor, gives us an analytical report on the Yankee reaction to the idea of tying its power supply to Federal apron strings.

* * * *

DURING the last couple of years transit utilities have found it increasingly difficult to attract private capital on conventional rate-of-return levels allowed by the regulatory commissions to other types of utilities in rate fixing. The relatively small investment in relation to high operating costs and sensitiveness to inflationary trends has made the transit industry consider the advisability of basing rates on operating ratios rather than return-on-rate base. But there are legal and equitable objections to this proposal (which has been favorably discussed in an earlier article), according to DR. LAURENCE S. KNAPPEN, former Federal economist and now public utility consultant in Washington, D. C. Such is the view taken in the article beginning on page 485.

DR. KNAPPEN was born in Sioux
APR. 9, 1953



LAURENCE S. KNAPPEN

Falls, South Dakota, and graduated from the University of Wisconsin in 1920 (MA, Rutgers University, 1933; PhD, Columbia University, 1940). Employed in investment banking and commercial fields for eleven years, he is the author of *Revenue Bonds and the Investor*. During World War II he was with the War Production Board and Office of Price Administration, 1941-46 (chief economist of OPA's public utility branch). Since 1946 he has maintained his own office as a consulting economist in Washington, D. C., specializing in rate regulatory matters.

* * * *

ERNEST FREDERICK LLOYD, whose article "Political Power of the Small Shareholder" begins on page 498, for a number of years was engaged in designing and manufacturing special equipment for artificial gas making and in owning and operating gas companies. He served a term as president of the Michigan Gas Association. He is now retired from active business and devotes his time to private effort in analyzing industrial problems. He makes his home in Ann Arbor, Michigan.

THE next number of this magazine will be out April 23rd.



The Editors

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There's an awful lot of figuring in the development and maintenance of consumer services like water, gas, light and power. How much? How many? How often? This kind of figuring you do fastest and most efficiently on the Remington Rand *Printing Calculator*.

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OUTLOOK FOR HYDRO REDEVELOPMENT AT NIAGARA

During the past two sessions of Congress three different ways of developing power in the Niagara area have been suggested. There is a Federal development plan, a state development plan, and a private company development plan. The 82nd Congress failed to act on any of these measures. Representative William E. Miller, New York Republican, explains the different proposals and why he believes Congress should adopt a bill for private company development which he has sponsored in both the 82nd and 83rd Congresses.

CAN FICTIONS OF LAW AND ACCOUNTING BECOME CONFISCATORY?

The question of value of service has long been a controversial and disputed issue in public utility rate regulation. William M. Wherry, well-known public utility specialist of the New York bar, presents a forthright view of the actual effect of accounting practices on the equities of the public utility investor through the process of rate regulation.

DREAMS THE TAXPAYER DIDN'T HAVE TO PAY FOR. PART II.

In this issue appears the first instalment of a 2-part series discussing private company utility investments which are of positive benefit to the taxpayers, in addition to their strict utilitarian function. In the coming issue there will be presented the second and concluding instalment, which covers developments in Alabama, California, Georgia, Idaho, Maine, Missouri, Montana, North Carolina, Virginia, Washington, and Wisconsin. J. Louis Donnelly, author of this series, is a member of the editorial staff of the New York *Journal of Commerce*.

BARCELONA—A SPANISH LESSON FOR INVESTORS

President Eisenhower, in his State of the Union message early this year, referred to the need of restoring confidence in foreign trade and investment. The Federal government for some time has been investing World Bank and other funds in public utility services of friendly foreign nations in the form of rehabilitation loans, etc. But the question of whether the utility investor should consider foreign public utilities as compared with public utility industry securities in the United States is still a difficult one. The experience of investors in Barcelona Traction, Light & Power Company, threatened with expropriation by the Franco régime, is an interesting case study along this line. Herbert Bratter, Washington business author, has given us a description of what happened and some ideas as to what may happen to the private investors in the Barcelona utility.



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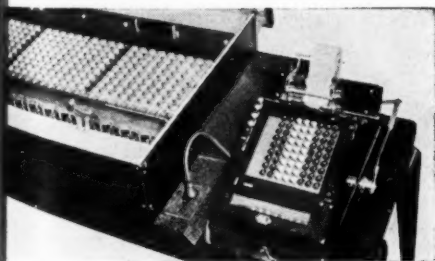
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—MONTAIGNE

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*President, General Foods
Corporation.*

"The government is not, and never should be, a well-spring of individual security."

CLARENCE MANION
*Dean emeritus, Notre Dame
Law School.*

"No amount of military might will save us if we permit our constitutional system to be subverted and destroyed."

WALTER WILLIAMS
*Under Secretary of
Commerce.*

"Only as we are able to increase our productivity rate are we able to bring up our standard of living—to have a bigger pie and cut it into bigger pieces."

*Excerpt from radio address of
Pope Pius XII—to Austrian
Workers Society—
September 14, 1952.*

"... a danger is present when it is claimed that the wage earners in an enterprise have the right to economic comanagement, especially when the exercise of this right rests in reality, directly or indirectly, with organizations managed from outside the enterprise."

D. A. HULCY
*President, Lone Star Gas
Company.*

"Too many of us have forgotten that our states are sovereign Republics, invested with primary rights and responsibilities. . . . that our national government is but a creature of the states; that its powers are endowed and not inherent and were designed only to serve certain common needs among the 13 newly independent American Republics."

DOUGLAS MACARTHUR
*Chairman of the board, Remington
Rand, Inc.*

"But to preserve it [our industry] we must understand it. We must understand that it comprises not only a power in being, but a reserve power capable of being quickly mounted to meet and overcome any eventuality. We must understand that it represents a condition of readiness born of American enterprise and vision, nurtured upon American energy and incentive, and finding its ultimate strength in American will and determination. It is the product of the capitalistic system. This system embraces every segment of our American society—the owners of industry, the workers in industry, and the public served by industry."

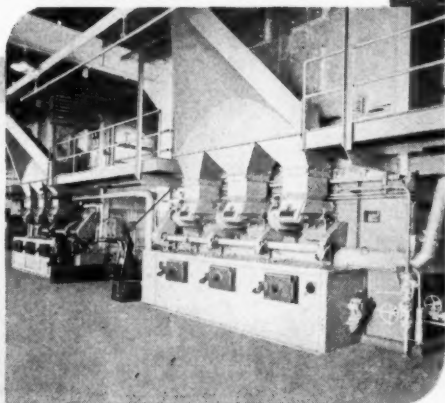


NEW PLANTS LIKE CATERPILLAR'S BURN COAL THE MODERN WAY!



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Plant Maintenance Engineer,
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Up-to-date coal-burning equipment can give you more steam per dollar . . . modern coal- and ash-handling systems can cut labor costs to a minimum. In addition, coal is the only fuel with virtually inexhaustible reserves. And to mine this coal, to better prepare it for customers' special needs, America has the world's most productive coal industry. Thus, coal users get a double advantage—dependable supply of an ever better product, at relatively more stable prices.

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- COAL** prices will therefore remain the most stable of all fuels.
- COAL** is the safest fuel to store and use.
- COAL** is the fuel that industry counts on more and more—for with modern combustion and handling equipment, the inherent advantages of well-prepared coal net even bigger savings.

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EDITORIAL STATEMENT
Industrial News Review.

"There is no reason and no justification for socialized electric power . . . every nickel of the taxpayers' money so spent is needlessly spent. The heavily taxed, publicly regulated utilities are performing the biggest power-producing jobs of the present—and they are ready and able to take on the biggest jobs that the future will bring. It's time to cut the Socialists off at the pockets."

CRAWFORD H. GREENWALT
President, E. I. du Pont de Nemours & Company.

"The real lesson of the past is that the raw material for all progress is people—not things. Given an atmosphere in which people can and will do their best, there is no limit to what may be accomplished. Never has there been a clearer demonstration of that simple theorem than in this nation's history. Never has so much been accomplished in so short a span of years. And if we preserve for the future the spur of individual initiative, the horizons will be bright indeed."

MERRYLE S. RUKEYSER
Columnist.

"Federal bounties in power or other services constitute a double-edged sword. They connect the growth of facilities for a region with a cycle unrelated to local economic expansion. Thus the Pacific Northwest depends for expanding motive power on the mood of the national Congress: whether it feels extravagant or economical. . . . When the supply of motive power is dependent on private initiative and private financing, the growth cycle is precisely related to the regional economic trend."

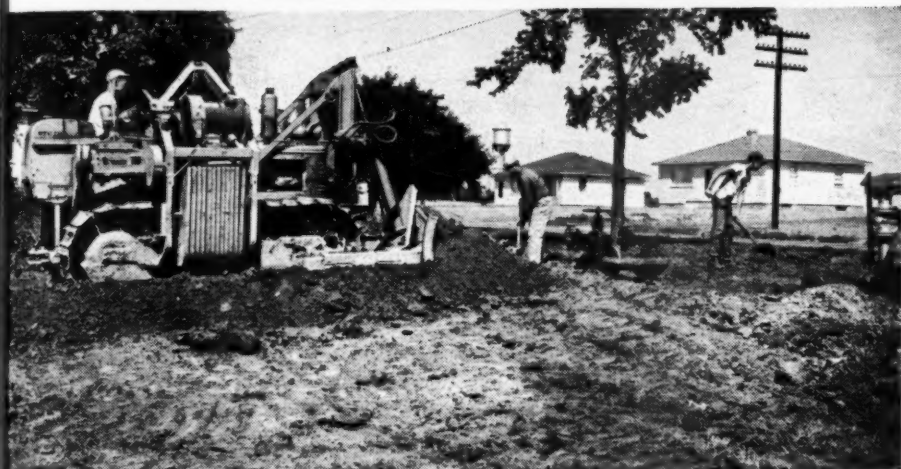
HOWARD M. DIRKS
Vice president, Carrier Corporation.

"Effective communications in industry must really be three-way—from the top down, from the bottom up, and laterally between departments and individuals on the same level. Real understanding cannot be reached unless there is opportunity for expression and willingness to listen on the part of all those concerned. Management must make the decisions and call the shots, of course, but an understanding of the signals and assignments in each play will result in purposeful individual effort and produce teamwork in an industrial organization the same as it will on a football team."

WILLIAM WHITE
President, New York Central Railroad.

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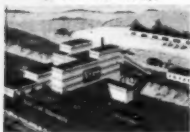
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VOGUE MINE—W. Ky.



OLD ABE MINE—W. Ky.



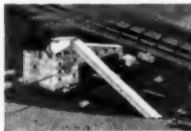
GRAHAM MINE—W. Ky.



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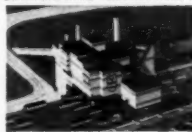
SEMINOLE MINE—Belleville Dist., Ill.



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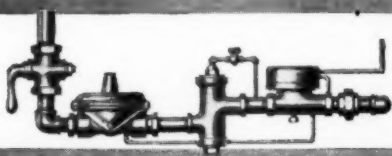
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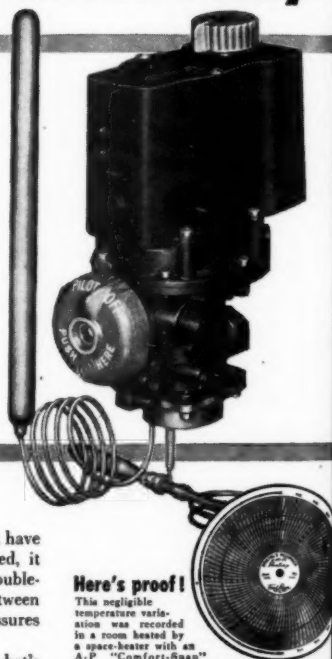


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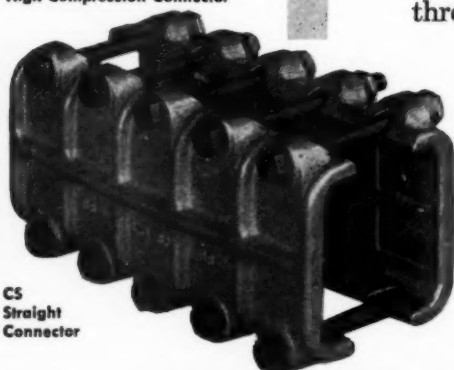
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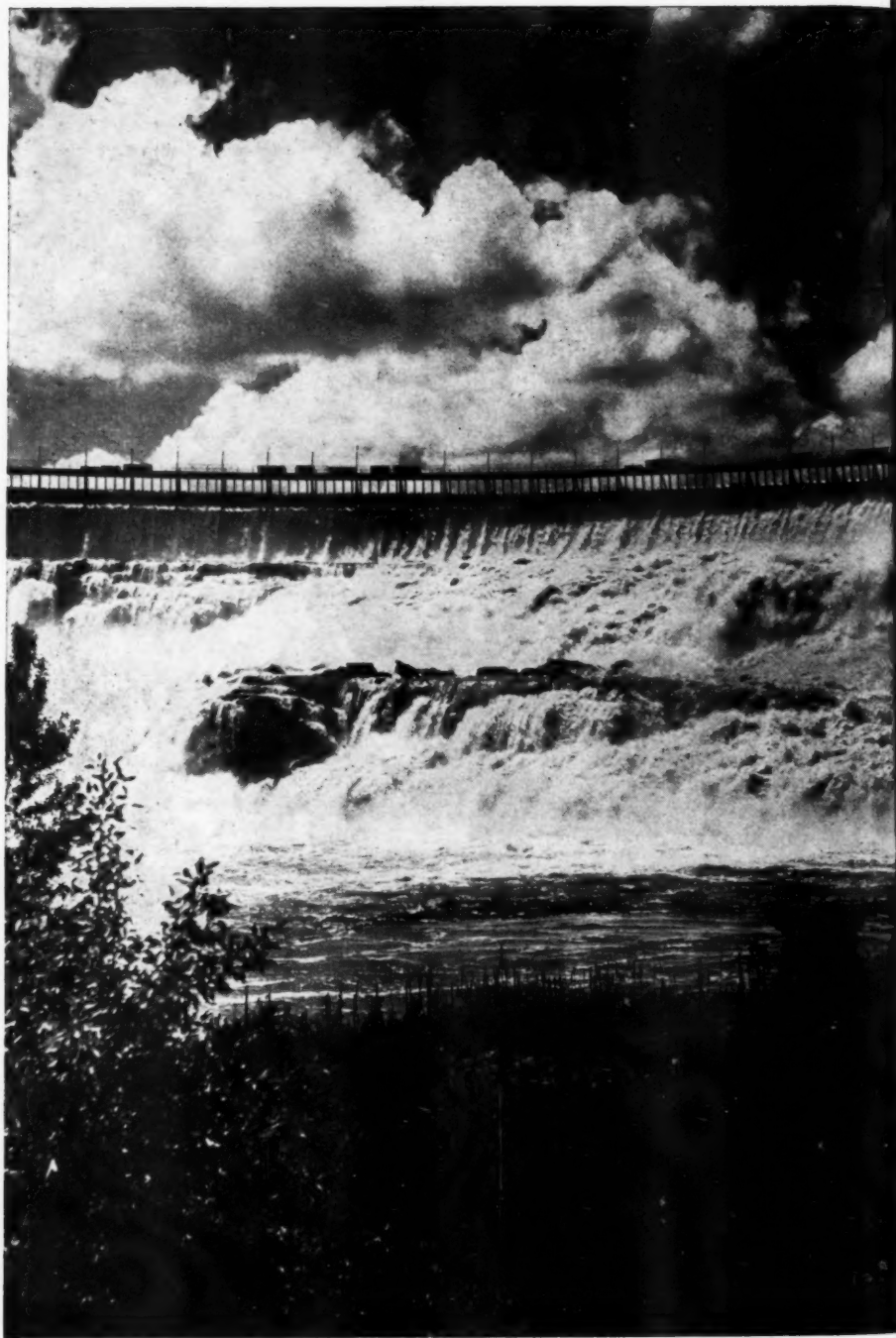
Utilities Almanack



APRIL



9	T ^h	† Pacific Coast Electrical Association, Administrative Services Section, ends 2-day conference, Phoenix, Ariz., 1953.
10	F	† Northwest Electric Light & Power Association, Engineering-Operation Section, ends 3-day meeting, Portland, Ore., 1953.
11	S ^a	† Rocky Mountain Electrical League will hold annual spring conference, Denver, Colo., April 26-28, 1953.
12	S	† Illuminating Engineering Society begins southwestern regional meeting, Dallas, Tex., 1953.
13	M	† American Gas Association begins sales conference on industrial and commercial gas, Philadelphia, Pa., 1953. 
14	T ^u	† Association of Nebraska Liquefied Petroleum Gas Dealers begins annual convention, Omaha, Neb., 1953.
15	W	† Illinois Telephone Association begins convention, Peoria, Ill., 1953. † Pacific Coast Gas Asso., Sales Sec., begins workshop, Santa Barbara, Cal., 1953.
16	T ^h	† American Water Works Asso., New York Sec., begins meeting, Elmira, N. Y., 1953. † Florida-Georgia Gas Association begins convention, Palm Beach, Fla., 1953.
17	F	† Maryland Utilities Association begins annual meeting, Baltimore, Md., 1953.
18	S ^a	† American Water Works Association, Arizona Section, ends 3-day annual meeting, Chandler, Ariz., 1953.
19	S	† Mississippi Liquefied Petroleum Gas Dealers Association begins annual convention, Edgewater Park, Miss., 1953.
20	M	† Electric and Gas Utility Accountants begin conference, Chicago, Ill., 1953.  † Ohio Independent Telephone Asso. begins convention, Columbus, Ohio, 1953.
21	T ^u	† Southwestern Gas Measurement Short Course begins, University of Oklahoma, Norman, Okla., 1953.
22	W	† American Institute of Electrical Engineers begins southern district meeting, Louisville, Ky., 1953.



Ryan dam on the great falls of the Missouri river, Montana, named for John D. Ryan, one of the founders of Montana Power Company.

Public Utilities

FORTNIGHTLY

VOL. LI, No. 8



APRIL 9, 1953

Dreams the Taxpayer Didn't Have to Pay for

Part I

The Eisenhower administration has given considerable thought to developing more "home rule" responsibility for public projects. But little is heard of improvements which actually benefit the entire population of an area without a penny's expense to the taxpayer—Federal or state. These are improvements bought and paid for by business-managed utility companies, which also pay taxes on their operations over and above the "social dividend" which such company structures provide.

By J. LOUIS DONNELLY*

MILLIONS of dollars have been spent by private electric utility companies in the United States in the development of river basins for the benefit of the public but not at public expense.

These companies have been highly

successful in meeting the greatly expanded postwar demand for electricity and frequently have been called upon to supply energy to the much publicized government power areas.

Some of these hydroelectric developments were started long before there were any government projects and when great investor risk was involved.

*For personal note, see "Pages with the Editors."

PUBLIC UTILITIES FORTNIGHTLY

Over the years there has been considerable expansion which was financed entirely by private funds. This program has actively continued. Still there is opposition on the part of government agencies to many private company projects. Examples are the issues involved in the Idaho Power Company's Oxbow project, the Kings river development of Pacific Gas and Electric, and the Roanoke Rapids Case involving Virginia Electric & Power Company. (The U. S. Supreme Court held against the Interior Department in the Roanoke Rapids Case on March 16th.)

THE utility companies have been active in presenting their views to the public on these matters and have been aided by a large and active local stockholder ownership, something different from the New Deal days when holding companies were common and shareholders few.

One of the companies, Rochester Gas & Electric Corporation, has prepared and is distributing to stockholders and consumers a pamphlet entitled "A Tax-paying River Development in the Genesee Valley." Alexander M. Beebe, president of the upstate New York utility, is quoted as saying:

Promoters of government development of electric power frequently point to the Tennessee Valley Authority (TVA) as an example of the benefits that can accrue to an area only from government operation.

However, we like to feel that our company, through private enterprise and without any burden to the taxpayer, already is doing all of the good things which they glorify and, in addition, is carrying more than our full share of the country's tax burden.

Many do not realize what the

RG&E has done and is doing in flood control—bringing low-cost electricity to the farmer, manufacturing fertilizer and fungicide, as well as assisting the farm homemaker and businessman in many ways that help to make for prosperity in the area we serve.

In statements to the Subcommittee on Irrigation and Reclamation of the House Committee on Interior and Insular Affairs in March of 1952, T. E. Roach, president of Idaho Power Company, charged that the proposal to construct the Hell's Canyon dam is "to spend \$482,000,000 of the taxpayers' money, or over \$3,000 per kilowatt, to obtain between 125,000 and 150,000 kilowatts of power above that which private enterprise is ready to provide, without the expenditure of a single dollar of government funds."

THE governor of the state of Idaho, Len Jordan, told this congressional group that he was opposed to the proposed legislation for the following reasons:

1. It is a direct violation of states' rights.
2. It places a definite limit on consumptive use.
3. It would destroy possibility of slack water navigation from southern Idaho to the coast.
4. Federal development would result in loss of taxes to Idaho and to the nation as compared to development by tax-paying private enterprise.
5. It would inundate mineral resources.
6. It would add to the Federal debt—taxes must be cut.
7. It offers prime target for sabotage or direct attack by an alien enemy.
8. Idaho would be forced into a state power authority to protect its reservation of power.
9. The Department of Interior's estimate of the down-river power bene-

DREAMS THE TAXPAYER DIDN'T HAVE TO PAY FOR

fits is a nebulous variable not fully accepted by other competent engineers not employed by the government.

10. The Columbia Basin Inter-Agency Committee has never endorsed and does not now endorse the Interior Department plan for building Hell's Canyon dam.

One of the well-publicized private river basin developments is the Wisconsin and people in that area describe it as the "hardest-working river in the land."

This river has received nation-wide publicity. Special articles describing the dam and reservoir system have appeared in PUBLIC UTILITIES FORTNIGHTLY,¹ *The Saturday Evening Post* (November 3, 1951), the *Congressional Record* (remarks by Senator Alexander Wiley, June 18, 1951), the *Electrical World* (August 14, 1948), and various other publications.

SOME other areas challenge these claims of the Wisconsin. One of these objectors is Thomas J. Rouner of the New England Electric System, who boasts of what has been done with the Connecticut river. Mr. Rouner says:

Over the past year or so, the Wisconsin river has attracted considerable

¹"Hardest Working River in the Nation." By M. H. Frank. Vol. XLVIII, No. 12, December 6, 1951, page 817.

nation-wide attention through magazines and radio as the "hardest-working river in the U. S. A." We have looked over such statistics as we could find for the Wisconsin river and compared with degree of development with our own Connecticut river here in New England and found that we have got them licked.

The two streams compare very closely in most of their natural features. For example, the total length of the Connecticut measures 407 miles against the Wisconsin's 430 miles; in drainage area the Connecticut river watershed has 11,200 square miles and the Wisconsin 12,280; in developed storage capacity the Connecticut has 19 billion cubic feet while the Wisconsin has 17 billion cubic feet; and in the matter of developed head or fall, the Connecticut river has 593 feet against 624 feet for the Wisconsin. However, when we come to the all-important feature of the horsepower rating of the water wheels actually installed, the Connecticut river has 508,000 horsepower against only 237,000 for the Wisconsin. On only one score does the Wisconsin river outdistance the Connecticut river and that is in the number of dams. The Wisconsin uses 26 dams on its main stream, while the Connecticut obtains the much greater horsepower from only 13 power dams. Furthermore, if we add in our 150,000-kilowatt Littleton development and its 159 feet of head, which will be under construction before the end of 1952, the main stem of the Connecticut will have 728,000 horsepower against the Wisconsin's 237,000 horsepower.



"AN example of river development in the Far West is the Mokelumne river which flows through the historic Mother Lode country of California's '49er gold rush fame. PG&E began modern development of this comparatively small stream in 1929 and since that time the total investment, on an original cost basis, including transmission, land, and land rights, is \$58,000,000."

PUBLIC UTILITIES FORTNIGHTLY

In summary, I would like to say that in the Connecticut river we New Englanders have a stream that is even more intensively developed and harder working than the famous Wisconsin river, which has been heralded as the "hardest-working river in the U.S.A." Perhaps we New Englanders shouldn't be so retiring in allowing our great works to go unnoticed to this extent. Both of these great rivers can indeed take pride in the fact that their development was accomplished almost entirely by private enterprise in true Yankee tradition.

M. W. KYLER, vice president and general manager of the Wisconsin Valley Improvement Company, the company that regulates the flow of water in the Wisconsin river, estimates that a sum of around \$400,000,000 has been invested in utility hydroelectric developments and paper-making developments utilizing the river power. This would be virtually the cost of the power plants, including both utility operations and paper mill operations.

It is obvious that the Wisconsin Power & Light Company and others associated with the project have been on their toes in attracting attention to what they have accomplished. Within the last few years a number of writers have visited with Mr. Kyler. A writer showing any interest is promptly invited to Wisconsin to obtain firsthand information on the story of this river.

The Wisconsin Valley Improvement Company has nine stockholders, companies owning 27 power plants on the river. They have paid for all of the construction costs involved.

"Everything that a government-owned project can do, our project does," says Mr. Kyler, "and, as our figures show, does it at a fraction of the

cost, and at a financial gain to the public. The real value of the Wisconsin plan, outside of the Wisconsin river's drainage area, is as a demonstration that the integrated, comprehensive development of an entire river need not be a Federal job, and a Federal job alone."

There are 26 hydro plants located on the Wisconsin river. In addition, there are three all-mechanical plants.

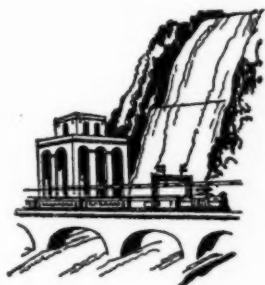
Only six undeveloped power sites remain, of which four promise a fall of 188 feet. As of 1950, the existing plants are putting to use more than 60 per cent of the 1,050-foot fall of this river. One of these, Menard Isle, is owned by Wisconsin Public Service and is now being developed. The same company owns two additional future sites.

IN the northern part of New York state, the Raquette river, which flows into the St. Lawrence, is now being further developed by the Niagara Mohawk Power Corporation.

This investor-owned company will spend more than \$22,000,000 on this development, which will add 91,600 kilowatts of capacity. At present the company has nine plants installed 1913 to 1940 having a total book cost of \$7,780,000 as of December 31, 1951.

The Raquette river is described as unusually well-suited for hydroelectric development. It is 160 miles long and has a 1,269-square-mile drainage area. The river flows through a narrow valley and falls 1,388 feet in 91 miles.

Colton is the largest plant with units installed in the period 1918-1928, rated capacity being 29,520 kilowatts and total book cost \$2,600,000. Next largest is Sugar Island, installed in



Connecticut Hydro Development

"THE capability of the present hydro developments of the main stem of the Connecticut is roughly 380,000 kilowatts. In addition, there are proposed hydro installations totaling 252,000 kilowatts, of which 150,000 will come from the New England Electric System's new Littleton development, slated to get under way early in 1953."

1924, with a book cost of \$1,240,000.

Work already has started on the South Colton development, the first of the five new plants to be built. These are:

Plant	Rated Capacity Kilowatts
Stark	20,500
Blake Falls	15,300
Rainbow Falls	20,250
Five Falls	20,250
South Colton	15,300
Total	91,600

EACH of the new stations is designed to shut down automatically under certain conditions, which include failure of generator windings or transformer, loss of excitation, excessive voltage or speed, or excessive temperature of windings or bearings. Harold I. Howell, system project engineer of Niagara Mohawk, points out that auto-

matic supervisory and semiautomatic operation of hydro stations with float or clock control of different combinations are accepted practice on the Niagara Mohawk system.

Company with the largest hydro plant capacity is Pacific Gas and Electric. In second position is Niagara Mohawk Power.

Investor-owned companies operating in the state of California have added 431,000 kilowatts of new hydro capacity since 1945. It is stated² that undeveloped hydroelectric power in California is not large in relation to the rapid growth in demand and, except for a few good sites which soon will be developed, the remaining hydro

² Address by James B. Black, PG&E president, before the fifth annual convention of the National Federation of Financial Analysts Societies at San Francisco, May 5, 1952.

PUBLIC UTILITIES FORTNIGHTLY

is becoming progressively inferior in quality.

Pacific Gas and Electric has 58 hydroelectric generating plants having a gross normal operating capacity at the close of 1951 of 1,326,600 kilowatts. Including steam, PG&E already has doubled its electric generating capacity since the end of World War II and by the end of 1955 will have nearly trebled it.

AN example of river development in the Far West is the Mokelumne river which flows through the historic Mother Lode country of California's '49er gold rush fame. PG&E began modern development of this comparatively small stream in 1929 and since that time the total investment, on an original cost basis, including transmission, land, and land rights, is \$58,000,000. Current replacement cost is estimated at \$95,000,000.

In addition to the benefits to the local economy through development of the electric power potential, of a water resource, there are the collateral benefits in flood control, irrigation, conservation, and recreation. Additionally, the stored water, and some canal systems which were born in the gold rush era, provides domestic water for a number of foothill towns and rural communities.

The Mokelumne boasts one of the earliest hydro developments in history, dating back to 1898. It was the first hydro power to reach San Francisco. The first plant was destroyed by fire and rebuilt in 1902, the latter operating continuously until retired in 1950 after completion of a new plant (Electra) built to replace it after the end of World War II.

The headwaters tributaries of the Mokelumne are stored in six PG&E reservoirs and finally are merged in the company's Salt Springs reservoir (capacity 141,817 acre-feet), located 35 miles upstream from the final power drop. The water from Salt Springs, supplemented downstream by water from other tributaries, goes through four PG&E power plants, one of which now is being enlarged. They have an aggregate capacity of 206,000 kilowatts.

Water then goes into the Pardee reservoir, owned by the East Bay Municipal Utilities District (EBMUD), to provide 85 per cent of the domestic, industrial, and agricultural water supply for EBMUD, serving 90,000 people in the metropolitan Oakland area. The district's daily average water demand is 112,000,000 gallons.

EBMUD has a 15,000-kilowatt power plant at the Pardee outlet whose energy is sold to PG&E for distribution over the company's interconnected system. Thus the water of the Mokelumne goes through five powerhouses with a total generating capacity of 221,000 kilowatts and continues on its way, undiminished in flow, to serve other purposes. A flow is maintained in the stream below Pardee to provide irrigation water for farmers along the rest of the natural route to the river.

PG&E has larger developments on the Pit and Feather rivers. Application was made in April of last year with the Federal Power Commission, to extend the Pit development in Shasta county by the construction of two new powerhouses at a total estimated cost of \$45,000,000. These would add 144,000 kilowatts of new

DREAMS THE TAXPAYER DIDN'T HAVE TO PAY FOR

generating capacity to the PG&E system. Capacity of the Pit river would be increased to 440,000 kilowatts.

Last May PG&E announced plans for a projected \$114,000,000 program on the North Fork of the Feather river. At that time, James B. Black, president, stated that this program would make the hard-working Feather the biggest power-producing stream in California.

The new powerhouses, generating a total of 364,000 kilowatts, would increase PG&E installations on the North Fork to ten plants with a combined capacity of 751,800 kilowatts, equivalent to a million horsepower. This would compare with a combined rated capacity of 450,000 kilowatts for the Shasta and Keswick power plants of the Central Valley project.

UP to the north, in the Pacific Northwest, one company has stood out in its campaign for private development of natural resources. That is Idaho Power. It has had to compete with tax-exempt competition and has managed to successfully do so. The best proof of this is the high investor rating of its securities.

Idaho Power Company has done a big job in developing the Snake river and aided in the active growth of that area.

Idaho Power has spent nearly \$100,-

000,000 since the end of World War II on new facilities, the company's major items being six hydro plants, whose added capacity increased its power supply by nearly four times since the end of the war.

This company has maintained a record of providing an abundant supply of electricity without any rationing or shortage. Gilbert L. Stanton, director of advertising and publicity for Idaho Power, asserts that "this is in direct contrast to the situation in the Pacific Northwest where Bonneville Power Administration has taken over the major responsibility for power supply. Severe power shortages have continued to plague the area and rationing has been resorted to although the percentage increase in power demand on the Bonneville system, since 1941, is less than for the Idaho Power system."

At present there are 15 plants located on the Snake river, of which two small ones are owned by Utah Power & Light Company and 13 by Idaho Power. More are planned.

Idaho Power's plants, starting at the farthest upstream and working down, are the following: American Falls, present capacity 27,000 kilowatts, completed in 1927, although predecessor companies had installations dating back to 1902. Twin Falls, capacity 9,600 kilowatts, installed in 1935. Sho-



Q "MILLIONS of dollars have been spent by private electric utility companies in the United States in the development of river basins for the benefit of the public but not at public expense. These companies have been highly successful in meeting the greatly expanded postwar demand for electricity and frequently have been called upon to supply energy to the much publicized government power areas."

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shone Falls, capacity 12,500 kilowatts, completed in 1921, although a predecessor company started it in 1907. Clear Lake, capacity 2,200 kilowatts, built in 1937. Thousand Springs, capacity 7,800 kilowatts, completed in 1920, started by a predecessor company in 1910. This plant is located on canyon wall of the Snake river and is fed by springs.

ALso Upper Salmon, capacity 37,000 kilowatts. Idaho Power installed the first two units of 20,000-kilowatt total capacity in 1937 and added two additional units in a separate plant amounting to 17,000 total capacity in 1947. Lower Salmon, capacity 68,000 kilowatts, was completed in 1949. Lower Malad and Upper Malad, total capacity 22,000 kilowatts, completed in 1948. These are not located on the Snake proper but are immediately adjoining it. Bliss, capacity 80,000 kilowatts, completed in 1950. Last year there was completed the C. J. Strike development with a capacity of 90,000 kilowatts and named after the late and widely known president of this company. Swan Falls, capacity 12,000 kilowatts, completed in 1918, although the first units were installed by a predecessor company in 1901. Oxbow, capacity 600 kilowatts, was built by a predecessor company in 1914.

There are two Utah Power & Light installations. St. Anthony was built by a predecessor company between 1906 and 1909. Utah Power took over the plant in 1914, dismantled it, and built the present plant which has a capacity of 500 kilowatts. The second is the Ashton power plant which had an original installation of 1,800 kilowatts and which was started in 1913 by a prede-

cessor company. Utah Power took over the plant in 1924 and raised the capacity to its present amount of 5,800 kilowatts in 1924 or 1925.

The Oxbow site is where Idaho Power hopes to build a plant of 140,000-kilowatt capacity in the near future at an estimated cost of \$23,000,000. Application to the Federal Power Commission for a preliminary permit was filed over five years ago, June, 1947, and a formal application for license for this plant was filed in December, 1950.

No action developed until July, 1952, when the commission held public hearings on the application in Boise and in Baker, Oregon. Technical testimony, scheduled to be taken in Washington last November, was postponed to early 1953. Delay was due to the controversy over the high dam proposed by the Bureau of Reclamation at Hell's Canyon which, if constructed, would flood out the Oxbow and four other low-head dam sites which the power company proposes to build as rapidly as area demands warrant.

IDAHO POWER has ambitious future plans for development of the Snake river. The company anticipates again doubling its generating capacity within the next five years. To do so it would construct as many of the low-head dams in the Hell's Canyon area as are needed unless prevented by government interference, which might take the form of flooding out the low-head sites by construction of the high dam at Hell's Canyon, or the withholding of licenses for the power plant construction.

Due to the fact that a number of



Golden Jubilee Plants in Michigan

"CONSUMERS POWER COMPANY, in Michigan, has operated hydro plants for many years. Some of these plants—all financed with investors' money—were built by predecessor interests in the early 1900's. The principal hydros in this company's system are situated on the three largest rivers in the state. These installations consist of a series of dams and powerhouses, so located as to assure full use of the flow of those streams."

companies have developed the Connecticut river basin, what has been accomplished is not generally appreciated.

The capability of the present hydro developments of the main stem of the Connecticut is roughly 380,000 kilowatts. In addition, there are proposed hydro installations totaling 252,000 kilowatts, of which 150,000 will come from the New England Electric System's new Littleton development, slated to get under way early in 1953.

The plants on the tributaries of the Connecticut river had at the present time approximately 221,000 kilowatts of capability with a proposed installation of 40,000 kilowatts.

Thus the grand total for the Connecticut and its tributaries shows a

plant capability of 601,000 kilowatts as far as present installations go, 293,000 kilowatts proposed for future installations, or a grand total of present and proposed installations of 894,000 kilowatts. All of this is being accomplished without government aid.

To obtain an idea of what this means in relative size, one has only to make comparison. If this power were entirely produced by a single electric system, such a company would rank on a par with the Niagara Mohawk Power Corporation and second only to Pacific Gas and Electric, which has the largest hydro plant capability of any private company in the United States. It would be larger than the presently authorized electric plant ca-

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capacity of the Central Valley project in northern and central California, which will be 625,500 kilowatts.

Largest installations on the Connecticut river are owned by the New England Electric System, Western Massachusetts Electric Company, and the Holyoke Water Power Company, the latter municipally owned. Tributaries with the largest hydro capacity include the Deerfield and Westfield rivers.

Connecticut river basin kilowatt capacity statistics as to capability installed or proposed are shown below.

Tributaries of the Connecticut river number thirteen.

ANOTHER utility company that is expanding in the Northwest is Pacific Power & Light Company. This company had under construction a second hydro plant on the Lewis river in the state of Washington. Known as the Yale project, this was slated for completion last fall at a cost of \$30,000,000. New generators were recently put on the line with capacity scheduled to be 108,000 kilowatts.

Last July Pacific Power & Light applied to the Federal Power Commission for preliminary permits to investigate two new hydro sites on the Lewis river above the Yale project and above the 100,000-kilowatt Merwin project. The new sites have an estimated potential of 85,000 kilowatts.

Tentative plans as outlined in this application called for a 50,000-kilowatt installation at a site on Swift

Creek and a 35,000-kilowatt development at a site on Muddy river, 12 miles farther upstream. Should these developments prove to be feasible the additional reservoir storage would increase the power output of both the Merwin and the Yale plants.

The proposed plants would give Pacific Power & Light a total of 501,000-kilowatt peak-load operating capacity on the Lewis river, or approximately the equivalent of a Bonneville dam, Paul B. McKee, president, has pointed out. Construction cost estimates of the new projects will await site studies. Including the Yale project, the postwar construction expenditures of the company will total \$75,000,000, money contributed by investors and not taxpayers.

THERE are numerous other examples of private company river development throughout the United States.

Consumers Power Company, in Michigan, has operated hydro plants for many years. Some of these plants—all financed with investors' money—were built by predecessor interests in the early 1900's. The principal hydros in this company's system are situated on the three largest rivers in the state. These installations consist of a series of dams and powerhouses, so located as to assure full use of the flow of those streams.

On the Au Sable river, in northeastern Michigan, six plants have a com-



	Main River	Tributaries	Total
Public utility	368,170	175,948	544,118
Industrial	11,626	45,710	221,658
Proposed developments	252,500	40,300	292,800

DREAMS THE TAXPAYER DIDN'T HAVE TO PAY FOR

bined capacity of 41,000 kilowatts. In the western part of the state, four plants on the Muskegon river develop 47,250 kilowatts, and two plants on the Manistee river account for another 38,000 kilowatts. The balance of a total hydro capacity of 156,107 kilowatts comes from numerous small plants on various streams throughout the state.

As a pioneer in hydro development in the Middle West, this investor-owned utility company has done a practical job in putting river resources to beneficial use for the people in the cities and rural sections of outstate

Michigan, which is its service area. This includes practically all of the state except Detroit and its environs.

A large interstate development is that located on the Susquehanna river. In Pennsylvania, Metropolitan Edison Company operated a 28,800-kilowatt plant and Safe Harbor Water Power Corporation one of 297,500. Farther down river in Maryland is the 378,000-horsepower Conowingo plant, owned by Philadelphia Electric Company and Susquehanna Power Company. New York State Electric & Gas Corporation has a small plant of 3,160 kilowatts at Colliers in New York state.

PART II of this article will appear in the next issue of the FORTNIGHTLY.

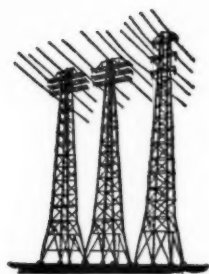


The Rôle of Government

“WITHIN rational limits, governmental spending at Federal, state, and local levels can play a legitimate and useful rôle in stabilizing employment. There is a genuine need for new highways, schools, hospitals, and other public works to an aggregate value of tens of billions of dollars. It would be logical and proper for such genuinely needed but postponable projects to be timed in such a way as to take up any slack created by a decline in other types of demand.

“The principal danger—and it is a grave danger—is that employment policy will overreach itself and try to achieve the impossible. Maximum employment need not and should not mean overfull employment, such as is witnessed at a time of war, quick rearmament, or business boom. Some unemployment there must always be, even in booms, and at some times there will be more than at others. Wise policy will recognize this necessity and aim at the maximum employment attainable by the use of measures that promote instead of endanger the long-term welfare of the economy. Insistence upon Utopia can end only in inflation, regimentation, or both.”

—EDITORIAL STATEMENT,
*The Guaranty Survey, published by Guaranty
Trust Company of New York.*



Power in the Northeast

The traditional New England attitude of paying one's own way and running one's own affairs is well illustrated in the controversy over a proposed Federal power development in that region. Here is an analytical report on the Yankee reaction to the idea of tying its power supply to Federal apron strings.

By LINCOLN SMITH*

FOR two decades New Englanders have warded off national power policies. Today this is the only major region in the United States without Federal multiple-purpose projects and, except for scattered municipal plants, without public power. State political leaders, regulatory officials, and utility and business executives have stood shoulder to shoulder in a joint enterprise which has kept the development and administration of hydroelectric resources under local autonomy.

The reaction of the Northeast to the present survey by the New England-New York Inter-Agency Committee gives the arguments which have been used to achieve the regional objective. The political and economic philoso-

phies which motivate the Northeast in its struggle to maintain its traditional "home rule," particularism, independence of spirit, and private enterprise are of national interest. They have prevailed in the Northeast largely because of the intensity of public opinion and leadership, and because private industry has been both active and vigorous in expanding its power capacity on its own initiative.

THE precursor to this article, "A New Regionalism in Regulatory Administration," which appeared in the last issue of *PUBLIC UTILITIES FORTNIGHTLY*, suggested several basic postulates the new administration will embrace in power policy. It showed that future emphasis will be on private and not public power; that where Federal assistance does occur, it will

*For personal note, see "Pages with the Editors."

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be on a partnership with the states and private owners; that regional decentralization will stress local option and control; and that future regional planning will favor state and local levels of government and the economic rather than the political approach. This sequel purports to give a close-up of thinking in the Northeast which has been contrary to national power policies for the last twenty years, but which apparently is at last harmonious with anticipated new national policies. The dissenting minority opinions of the Northeast now promise to become controlling national policy by virtue of the 1952 elections.

Northeastern thought is by no means unanimous on these issues. At the risk, even at the necessity, of oversimplification, this article attempts to give a report and an analysis which seems to this observer to approximate modal thought. It is intended as a description and explanation; not necessarily as a justification.

REGIONAL thinking is best shown by the testimony at the NENYIAC hearings; the report of that committee is scheduled to be completed by June of next year. Opposition is based on the form, method, and scope of the survey. It has been construed generally as a movement to impose public power on the region. The really incisive objection is simply that the Northeast wants to control its own power destinies and resources development without Federal intervention.

The survey is alleged to be bureaucratic in form and origin. Although authorized under the Flood Control Act of May 17, 1950, Congress has made no appropriation for the survey,

except to the Army Engineers, and even here Congress has not appropriated all the money estimated as necessary to cover the cost of the Army's part of the survey. Other Federal agencies are performing their part of the work with funds from their general appropriations. States are furnishing funds and personnel in varying amounts. Two attempts to obtain congressional appropriations for the Department of the Interior availed nothing, but Interior set up a New England office for the study by using other funds.

THE method used by the committee was well stated by Colonel Benjamin B. Talley:

The interagency approach to solving river basin problems is producing important results. This approach invites co-operation and teamwork. It mobilizes state and local interests as partners with the Federal government and invites the attention of experts in all fields. Furthermore, such an approach is in the American tradition. No other plan pools so well the best experience and thinking of our best minds concerned with the same problems.¹

But the degree of state influence is vague. President Truman requested state participation in setting up the committee. Each governor in New England and New York appointed a delegate, but state representation at the hearings has lacked some consistency and has also changed with the political climate. The states can observe and participate, but only the Federal agencies on the committee can vote.

¹Unless otherwise noted, all quotations in this article are from testimony offered at the various meetings and hearings of the New England-New York Inter-Agency Committee.

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NEW YORK is not entirely enthusiastic about the scope of the agenda. Pollution problems relating to New York harbor which are covered by the Interstate Sanitary Commission have been carved out of the study. Under the geographic scope of the survey, those parts of New York in the Allegheny, Susquehanna, and Delaware river basins and the Hudson river south of Putnam county were excluded by some of the study and report groups. John E. Burton, chairman of the New York Power Authority and state representative on the committee, remarked about the exclusions as follows:

When I pledged New York's full but watchful co-operation to the New England states and the Federal agencies toward the end that fullest state responsibility would be observed in the preservation and development of our natural resources, I jokingly stated that we would also be watchful as to why New York was being annexed to New England. Are we now to have part of our state annexed to Ohio, Pennsylvania, and New Jersey?²

New York representatives have expressed a paramount interest in the St. Lawrence project. Governor Thomas E. Dewey hoped that an exchange of views between representatives of New York and New England would result in "the political support of the representatives of the New England states

in the development of the St. Lawrence and in our right to develop the Niagara." He referred to this project as "the largest undeveloped water supply in the North American continent." New York is willing to share the power with its neighboring states.

INCLUDED below are clear and highly pertinent statements made by responsible New England leaders. These represented their opinions at that time; in all cases they were made before the 1952 elections. The belief that the purpose of the NENYIAC was an attempt to bring public power to the Northeast was well expressed by Albert A. Cree, president of the Central Vermont Public Service Corporation, and by John E. Burton, chairman of the New York Power Authority. Mr. Cree:

A large part of the talk and discussion has been Federal government propaganda from Washington slanted to soften us up for invasion by the forces of the Federal public power trust. . . . There is no doubt whatever that a drive to bring Federal public power to New England is on. It has been on with full steam ever since the President in his State of the Union message to Congress in January, 1950, lamented the fact that New England had no Federal power developments within its borders and called for a survey to see what might be done to improve our condition. The people of New England do not share President Truman's lament. They are independent and proud and self-reliant and

² Letter to Colonel F. F. Frech, NENYIAC, Albany, New York, March 14, 1951.



Q "FOR two decades New Englanders have warded off national power policies. Today this is the only major region in the United States without Federal multiple-purpose projects and, except for scattered municipal plants, without public power."

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want no Federal government handouts with the accompanying controls from Washington that go with Federal public power.³

Mr. Burton:

I think that the Federal government is set, some agencies of the Federal government are set, to take over the natural resources of our area. Sometimes it is done under the disguise of river basin development. In the case of New York and New England, it cannot be done on that basis, because we are not in the same river basins. So it is being done under the disguise of a regional development; a regional government.⁴

THE opinion has been expressed many times that the Northeast is capable of solving its own power problems. In the words of Avery R. Schiller, president of the Public Service Company of New Hampshire:

I believe an honest appraisal will show that the power needs of New England have been, are being, and will be well cared for by the investor-owned utilities despite the severe handicaps of heavy taxation and the tendency toward planning at the Federal level. I also believe sincerely that I interpret the feelings of the majority of the people of New Hampshire when I say that they prefer to work out their own destinies rather than leave future planning and construction to the Federal government.

Edwin A. Seibel expressed it this way:

The Holyoke Taxpayers Association is of the firm conviction that all

natural water resources should be developed to their fullest extent for the best interest of Massachusetts, its citizens, and industries, but if regulations or controls are necessary to meet the problem, they should be handled by Massachusetts in co-operation with other New England states which may be concerned, but without resort to the Federal government.

Before his elevation to the United States Senate, Governor Frederick G. Payne of Maine told the committee the development job can and will be done by private industry. William F. Wyman, president of the Central Maine Power Company, assured the committee that Maine's utilities and industries will be able to meet all foreseeable power needs without government help. "This should be a satisfactory answer," he said, "to those who believe in the private enterprise system and who are concerned over the excessive spending, taxation, and control on the part of the Federal government which an opposite course would entail."

On the matter of electric rates, Mr. Wyman said that if his company had received the same tax treatment as the TVA did in 1951, Central Maine could have reduced customers' bills 21.7 per cent without reducing net earnings one penny. On this same point it is significant that 23.1 per cent of the 1951 revenue dollars of the Boston Edison Company went for taxes, the second highest category of its expenditures. Thus, the business-managed utilities have contributed tax money toward a rival and competing system.

NEW ENGLAND wants its planning done at the grass roots. President Howard J. Cadwell of the Western Massachusetts Electric Company

³ "What Are the Power Needs and Resources of New England?" Speech given by Mr. Cree at the Curriculum Laboratory in Economics Education, University of Connecticut, Storrs, Connecticut, August 16, 1952.

⁴ Address before the joint meeting of the Vermont legislature, Montpelier, Vermont, April 4, 1951.



Shopping for Regulation

“UTILITY companies have been chided for demanding state control in order to escape strong regulation by the national government. Their critics remember the era when the national regulatory movement was in its infancy and relatively ineffective. Then industry in general clamored for national as opposed to state regulation. It is common practice, however, for litigants to invoke Federal or state law, whichever appears more favorable to their side.”

holds the view that the power phase of the feasible multipurpose projects in New England is not large enough to noticeably influence the cost of power. “But it is obvious that other river-basin improvement and conservation factors are of great consequence to our economy. I would certainly feel that a partnership between private enterprise and government in the field of resource development is greatly to be desired—with New England people occupying a dominant rôle in the planning.”⁵

THE central themes at the state NENYIAC hearings have been that the states should jointly work out their own power problems, that Federal participation should be limited to research and guidance, and that development should be under private initia-

tive. Only when the states are unable to meet the situation or when the country as a whole will receive unusual benefits is Federal action justified. These tenets correspond to the general principles of Republican political philosophy on resources policy as outlined in the previous article.

Opinion at the hearings has been close to, but not quite, unanimous, even among the states. Some of the dissents have been expressed by leaders chosen in one way or another under Democratic auspices. It is significant that in the last two decades the Democratic party, the old states’ rights party, became the champion of centralization; while the Republicans, former proponents of a strong central government, were maneuvered into the original position of their opponents. The issue is whether the focal point in the chain of command should be located toward the top or toward the bottom in the Federal system.

⁵ Letter to Dudley Harmon, executive vice president, New England Council. Springfield, Massachusetts, August 29, 1951.

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PARTICIPATION at the hearings has not been representative. For the most part only those immediately concerned have appeared, although all who want to be heard have been welcome. In general, representatives of business, industry, and utilities have testified along with state officials, with occasional spokesmen for labor, rural co-operatives, and a few individuals representing themselves. On the other hand, it would be extremely difficult, if not impossible, to obtain a truly representative group; and testimony from those only remotely concerned or without real convictions would be both listless and valueless.

While New England power companies have been arguing against national development and control, they also have been taking positive action to prevent it. A 30-year expansion program at a cost of \$3 billion under present level of prices will quadruple the region's power-generating resources by 1975. Both steam-generating and water-power installations are included in the program which was started in 1945. In the first seven years the power supply was increased by 62 per cent in the six states; by 1955 it will be 85 per cent.⁶

Because most of New England's hydro is peak power, limited to short-hour use, extensive steam capacity is required to supplement water power to supply the demand for firm power. New England rivers lack the water capacity of Grand Coulee and Bonneville. Land areas, rivers, and rainfall here are much smaller. New England's five largest rivers drain water from

only 20,800 square miles, compared to 169,000 square miles drained through Boulder dam and 227,000 for the Bonneville project. Such federalized areas as the TVA and the Pacific Northwest, which are much younger in their regional development and economy, are already resorting to auxiliary thermal capacity. In the TVA system alone, fuel plants are in operation, building, or planned, having a total rated capacity greater than the total fuel-burning capacity of all the electric utilities in New England.

YANKEE ingenuity and leadership have contributed to technological progress and innovation. The first pioneering installations in modern electricity-generating machines, the gas turbine, are now being tried experimentally in Maine and Vermont. Vermont has had some practical experience with the use of air turbines.⁷ Maine has plans for harnessing the gigantic tides in the Bay of Fundy to create a huge bloc of electricity at the Passamaquoddy project, which, from an engineering standpoint at least, is both practical and feasible.⁸

Note has been made that the testimony at the NENYIAC hearings was given before the 1952 elections. What result the changed political horizon will have upon the forthcoming report is a matter of conjecture. Of course a great deal can happen between now and June, 1954. Some observers feel, however, that the chances of the re-

⁷ Palmer C. Putnam, *Power from the Wind*, New York (1948).

⁸ Lincoln Smith, "Tidal Power in Maine," *Journal of Land Economics*, August, 1948; "Quoddy Tidal Power for New England and New Brunswick?" *PUBLIC UTILITIES FORTNIGHTLY*, Vol. XLV, No. 6, March 16, 1950, page 333.

⁶ *New England News Letter*, Boston, October, 1952, page 18.

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port being deliberately phrased and slanted for political usage are not so great now as they were when the committee was originally established.

But many New Englanders remember their participation at the hearing before the President's Water Resources Policy Commission at Springfield, Massachusetts, in July of 1950, where their testimony had little effect on the outcome of the report. This time they are making their points more vociferously and in greater volume. If this report does not conform to, or at least recognize, local sentiment, the states will be in a position to submit a dissenting report on their own initiative and responsibility.

It is an injustice, however, to the personnel of the committee to attribute motives to the voting members. As a fact-finding and planning agency, it has an opportunity to make a positive and continuing contribution to water resources policy of the Northeast. A judicious report which does not purport to be a master plan and which does not conform to preconceived notions, and one which outlines alternative proposals and policies to be accepted, modified, or rejected at local option would be a help to all concerned and might alleviate some state, regional, and national conflicts.

Whereas the report of the President's Water Resources Policy Commission was nation-wide in range, but limited in study time, the present committee will have over three years to prepare a report limited to one region. This geographical limitation should increase the depth and trenchancy of the study. Regional opinion seems bound to count in a report prepared for and limited to that area. The report will not follow the 1952 election returns; the integrity of the personnel of the committee excludes such a possibility. The only concluding observation that can be offered is that a planning agency is staffed by experts and specialists chosen by other men whose positions were obtained in the American political process. That process is flexible, and in one way or another the results obtained eventually reflect changes in the climate of political opinion.

UTILITY companies have been chided for demanding state control in order to escape strong regulation by the national government. Their critics remember the era when the national regulatory movement was in its infancy and relatively ineffective. Then industry in general clamored for national as opposed to state regulation.



Q "It is probably impossible to present an objective analysis on the question of public *VERSUS* private power, because many of the arguments simmer down to rationalization based on emotional preconception. But, in general, New Englanders do not want to participate in great collective enterprises. Their history, cultural heritage, political institutions, and the innate nature of the people amalgamate into a preference for self-government at the local level."

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It is common practice, however, for litigants to invoke Federal or state law, whichever appears more favorable to their side. "Excessive" regulation or "unfair" competition will cause industry to seek relief at either level of government.

NATIONAL or state regulation is prescribed by law and is not a matter of choice, except to the extent that in free government voters participate in the political process which makes and alters policy. New Englanders, who believe that their strength lies in the democracy of their town meetings, are strong advocates of local autonomy. They are self-reliant and confident in their ability to control the charters of their utility corporations, regulate them, and hold the corporations to accountability through local political institutions. This they prefer to national planning and control. Instead of a formalistic, impersonal, and regimented national control, they prefer local autonomy, where local value judgments and policy judgments can be made to count. New England has not been willing to pay the price for Federal largess.

Some of the current opposition to national control of power resources can be explained in part by early laws which perpetuate custom, self-containment, and environmental determinism. Northern New England laws are almost unique on littoral rights by virtue of the Great Pond Ordinance of 1642. The Massachusetts Mill Act, 1713, which gave the owner of a dam site who first utilized it liberal privileges to develop water power as private property, has influenced water law throughout New England. Riparian

rights were thus slanted in favor of vested interests. The great weight of history has helped to intrench riparian owners in their legal rights in New England. This is in contrast with the western concept that running water is an asset of society which is not subject to private appropriation except under regulations that protect the general interest.⁹

THE election results in northern New England show that a conservative philosophy prevails. Republican Governor Christian A. Herter of Massachusetts made a budgetary reference to the dangers of imposed Federal standards. That was quite a contrast with his predecessor, Governor Paul A. Dever (Democrat), who claimed at the Springfield hearing in 1950 "that states' rights may be fully protected, while the Federal government acts to afford these states the benefits of a unified approach and a basis for common advantage."

The 1950 and 1952 elections in Vermont were victories for the conservative wing of the Republican party, the antithesis to a liberal movement of a few years previous which centered about former Governor Ernest W. Gibson. Power was an issue, but not a major one in the Maine elections. Governor Burton M. Cross won an overwhelming victory. He is a strong believer in states' rights and in keeping government dispersed and at the local level as far as possible. He is a staunch advocate of hydroelectric development under private auspices, and is also in favor of the Passamaquoddy project.

⁹Lincoln Smith, "The Proposed Development Authority Compact for New England," *Political Science Quarterly*, March, 1951.

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THE big question now is whether New Englanders have been unduly and unwisely reticent in not having accepted an available share of Federal funds, or whether the record of self-abnegation and frugality entitles the region to a position of moral leadership in the country. Professor Seymour Harris of Harvard University and the Committee on the New England Economy have recently branded New England as a "sucker" for not grabbing a bigger share of Federal funds. The other view was expressed by Lawrence F. Whittemore, president of the New England Council, who, in his "New England Credo," took the position

That the region's resolute refusal to seek special privilege and unfair regional subsidy, and its awareness of the potential dangers to freedom inherent in such dependence, have placed it in a position of leadership far beyond that which is expected because of its geographical size and population.¹⁰

The Boston *Herald* editorially supported the Whittemore view, and thinks New England should gladly accept the leadership to which it is entitled for its record "under the recent giveaway administrations":

New England has long been handicapped because the Federal government took more out of the region in taxes than it returned in benefits. At best, so long as ours is a relatively high-income area, this differential can only be whittled down. The question is whether we should whittle it down by taking more money from Washington or by persuading Washington to take less from us. In the climate of the middle-of-the-road national adminis-

tration the latter would seem to be by far the more grateful course.¹¹

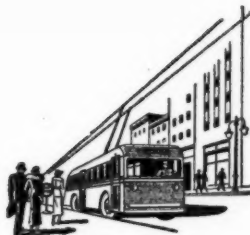
IT is probably impossible to present an objective analysis on the question of public *versus* private power, because many of the arguments simmer down to rationalization based on emotional preconception. But, in general, New Englanders do not want to participate in great collective enterprises. Their history, cultural heritage, political institutions, and the innate nature of the people amalgamate into a preference for self-government at the local level. Governor John D. Lodge of Connecticut told the committee:

We, in New England, frequently are accused of carrying to extreme on occasion our traditional independence of spirit. That is true, yet it is this very tribute which has enabled us, despite our relatively meager natural resources, to build here a prosperous economy and a civilization of inspiring and enduring worth.

New Englanders are said not to be original thinkers. They have been called stubborn, behind the times, and supporters of an unwise economic policy. New Englanders simply dismiss such classification as presumptuous. Their convictions are strong; their motivation sometimes puts rugged individualism ahead of pecuniary designs. Only under a Federal system with its dual division of powers can this individualism be nurtured; only in the laboratories of the "insulated chambers of the states" can a persistent minority policy prevail.

¹⁰ Boston *Herald*, January 27, 1953.

¹¹ "Against the Tide," January 29, 1953.



Transit Operating Ratio— Another View

The relatively small investment of transit utilities in relation to high operating costs and sensitiveness to inflationary trends has made the transit industry consider the advisability of basing rates on operating ratios rather than return-on-rate base. But there are legal and equitable objections to this proposal (which has been favorably discussed in an earlier article), which are analyzed here.

By LAURENCE S. KNAPPEN*

THE local transportation industry, freight and passenger, has, for some years now, been cultivating the idea that an operating ratio should be substituted for the conventional fair rate of return on the net investment as a standard in determining just and reasonable rates.

Ratios sought or approved have included such ratios as 84.58 per cent,¹ 90 per cent,² and 93 per cent.³ The Interstate Commerce Commission has appeared to favor an operating ratio of about 93 per cent.⁴ Such a spread in the ratios used and such a departure from the conventional rate-making methods may warrant a closer look at the relative newcomer.

Just what is the operating ratio? The answer is extremely simple, at

first sight. It is the percentage that the direct operating expenses bear to the operating revenues.⁵

However, the operating ratio is not so simple in actual practice; many questions may, and do, arise as to what expense items should be included. More clarity and uniformity as to just what expenses are included and which ones are excluded in the companies' requested operating ratios, and in the figures used by the commissions in arriving at the operating ratios which they finally approve, would be an improvement over present practice.

Its Convertibility into Rate of Return

WHEN a particular utility's operating revenues and its net investment are known, then its operating ratio, whether before or after income

*For personal note, see "Pages with the Editors."

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taxes, can be precisely converted into a rate of return percentage. That is to say, every operating ratio is equivalent to some rate of return, and, once the operating ratio is applied to the operating revenues, the net operating revenue remaining for a return upon the investment can be computed as a rate of return by dividing such net operating revenue by the net investment.

The operating ratio method may hide the rate of return actually being allowed, and may even result in a rate of return which "It is not conceivable that any commission which talks the traditional rate base-fair return language would allow,"⁶ as stated recently in the FORTNIGHTLY. However, such concealment will not destroy the fact as to the rate of return being allowed, and the rate can always be computed.

Claimed Advantages and Justifications Of the Operating Ratio

IT is claimed that the operating ratio gives better protection against the volatile earnings said to adhere to the motor transportation industry than the use of the rate of return method.

Since every operating ratio is equivalent to some rate of return, it can only provide better protection if it gives a higher rate of return than is given by the more conventional method. That is, it cannot be the method, as such, but the number of dollars provided, of course, that gives the protection.

It is unquestionably true that a higher rate of return will give better protection to the owners of a business than will a lower return. But that fact alone does not justify the use of

the operating ratio with its customarily (though not necessarily) higher rate of return. The rates are supposed to be reasonable, both as to the public and as to the owners. But if the rates are to be reasonable, the protection afforded the owners, which is one of the primary factors in setting the rates, must be no more than reasonable.

Assuming that "better protection" were the only test, then there would be no stopping the raising of the rates short of the point at which the industry would itself voluntarily forego any further increases; *i.e.*, the monopoly-price level. That is to say, the regulatory commission would be in the position of abandoning all rate regulation. At that point the investor interest would have maximum protection, but the patrons would have minimum protection.

If the practical effect of the use of the operating ratio would be to allow a rate of return of 19.8 per cent, and if an advocate of the method, himself, says "it is not conceivable that any commission which talks the traditional rate base-fair return language would allow such a return,"⁷ then it would seem that the rate is being secured by indirection.

Does such action not begin to violate the principle enunciated by the United States Supreme Court that a public utility "has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or *speculative ventures*"?⁸ (Emphasis added.)

IT is also claimed that the operating ratio method facilitates the acquisition, among other things, of "new or

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improved terminals, depots, and other accouterments to provide convenient, safe, and rapid service."⁹

Similarly, the Alexandria, Barcroft & Washington Transit Company, before the United States District Court, Alexandria division, in County Board of Arlington v. United States of America, 103 Fed Supp 607, contended, "The earnings of a motorbus operator must, therefore, be adequate to enable it to provide needed equipment and facilities so long as it is unable, as a member of the motorbus industry, to attract the needed capital funds from other sources."¹⁰

That is to say, the riders through the rates of fare are to supply the bus company's capital, not just the annual carrying charge thereof. Such customer contributions are known as "Contributions in Aid of Construction" in the case of electric, gas, and telephone utilities, and those utilities are not customarily permitted to use contributions as part of their rate bases.

The bus companies' use of the operating ratio to pay for their capital facilities is a device that compels the riders to provide the property used and useful in their own service. Why should the riders donate property to add to the wealth of the bus companies? Or, if they provide it, why should they pay rates that will provide a return on their own property? Why

should they, where they have furnished the capital, provide a margin over and beyond the operating expenses, including the wages of management?

THE operating ratio has been said to be "a more accurate gauge" of the revenues a transit company should be allowed than was the old rate of return.¹¹

And it is also said to have the advantage of simplicity with no more battles over "prudent investment" versus "reproduction cost" or depreciation methods, or accounting for extraordinary obsolescence. "All that a commission now need do is examine the operating expenses to make sure they are reasonable, and then determine the operating ratio which will give the company the required margin between expense and revenue."¹²

But how does one determine what is the "required margin between expense and revenue"? Where are the tests to aid one in determining just what the required margin is?

The gauge seems to be a little defective. The reader may be reminded of Justice Jackson's feeling of being all at sea, as expressed in his dissent in the Hope Case, where he wrote: "We need not be slaves to a formula but unless we can point out a rational way of reaching our conclusions they can only be accepted as resting on in-



Q "... every operating ratio is equivalent to some rate of return, and, once the operating ratio is applied to the operating revenues, the net operating revenue remaining for a return upon the investment can be computed as a rate of return by dividing such net operating revenue by the net investment."

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tuition or predilection. I must admit that I possess no instinct by which to know the 'reasonable' from the 'unreasonable' in prices and must seek some conscious design for decision.

"The court sustains this order as reasonable, but what makes it so or what could possibly make it otherwise, I cannot learn."¹³

Just so. And what makes a 93 per cent, or a 90 per cent, or an 84 per cent ratio reasonable? Where is the demonstration? The author of the FORTNIGHTLY article just referred to,¹⁴ immediately after delineating the accuracy, economy, and simplicity of the operating ratio method, continued in the very next paragraph, "It is unfortunate that the decisions to date offer rather little guidance as to the operating ratio which transit companies should be allowed." Thus we have gotten exactly nowhere in our search for the "required margin," which is the compelling problem facing all regulatory commissions that try to use the operating ratio method.

THE reason for the predicament is easily found. No one is able to say what operating ratio would be fair to both the ratepayers and to the owners and operators of the utility because there is no standard. There is nothing in the way of a guide in a figure of 96 per cent, or 92 per cent, or any other percentage, standing alone.

The more or less conventional 6 per cent or 7 per cent rate of return on the net investment meant something, since it indicated to everybody what the invested capital at risk would earn in the given field of employment, and this rate could be compared by the regulatory bodies and by the public

with what they knew was being earned in other areas. It could be compared with the yields being recorded in the securities markets as the result of the free and independent action of willing lenders and willing seekers of capital.

On the other hand, the operating ratio, whether 96 per cent or any other per cent, indicates nothing as to the rate being earned on the money at risk in the enterprise, nor can it be related to comparable ratios in other areas of public utilities, or even nonutilities. There simply aren't any such conventional ratios in other fields. The public does not recognize as appropriate any particular operating ratio for other utilities or business. Nor is there any independent market record of transactions that can be used to test in any way the propriety of the operating ratio figure used. It has to "be accepted as resting on intuition," to use Justice Jackson's words.

Incidentally, it is just as well that the public hasn't recognized any particular ratio as being appropriate, since the existence of two different standards—*i.e.*, an operating ratio and a rate of return—would work out to great confusion, unless they came to the same thing, in which case there would be no justification or necessity for the two standards.

AGAIN, it is said that the risk is greater, now that the amount of capital invested in the modernized local transit industry is relatively small.¹⁵

This sounds a little weird. The assertion comes to this: that the risk has become greater, now that there is less capital at risk, than it was when



The Risk Factor in Utility Rates

“UTILITY rates are not comparable with long-term fixed-contract prices, nor are the associated risks comparable. The very availability of a relatively quick adjustment of rates constitutes the best possible insurance to the so-called risky utilities, and reduces by so much the very amount of the risk that adheres to the industry. Temporarily inadequate rates do not imply, under the established regulatory procedure, that such inadequacy will be perpetual.”

there was more capital at risk. At this rate, the risk would be greatest if the amount of capital invested were at a minimum. This was not the view of Allan H. Willett, as expressed in his classic, *The Economic Theory of Risk and Insurance*, where he wrote:

... In just what sense a man can be said to run a risk of loss, who has nothing to start with, and who, therefore, cannot fail to come out from his venture at least as well off as he went in, it is not easy to understand. Only those who have capital can suffer the loss of capital.¹⁸

OR, it may be claimed that it is not so much the amount of capital, as its rate of turnover, which becomes more rapid as a local transportation company moves towards 100 per cent bus operations, that causes the risk.

This is the view of the NARUC Special Committee which refers to the “. . . risk involved by (the) more

rapid turnover of capital . . .”¹⁷ of bus companies.

To many observers, a rapid turnover business would appear to give far more flexibility and chance to adjust capital to current needs than one where the investment was fixed and immovable.

Formerly, the local transportation utility had a large fixed investment, not readily transferable to another community, nor even to other streets within the same community. The rails could only be dug up at great expense, and in many cases the salvage would apparently not repay the cost of digging the rails out of the pavement, judging by the abandoned rails that have been left on our cities’ streets, and even covered over with superficial surfacing.

On the other hand, the busses, which constitute by far the major capital item in the modernized transit

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company, are anything but a "sunk" investment. They can be shunted to other streets, or other parts of the city, or suburbs, on almost no notice whatever; and with a little paint job they can even be transferred to a different company and appear in a different city, or state, in next to no time at all.

THE situation is comparable to that in the railroad equipment field. Here, for years, the superior economic position of mobile equipment as compared with fixed property has been recognized, and has evidenced itself in the low interest rates asked by investors when lending on the security of the railroads' rolling stock. Even a bankrupt railroad can sell equipment trust obligations at low rates of interest, since, in case of need, the equipment is transferable to other users.

From an operational angle, then, the risk is less under the more flexible type of operation that goes along with the use of busses. But even if this favorable aspect is ignored, the shift to bus operation does not *per se* increase the likelihood that there will be a decline in revenues relative to expenses, or an increase in expenses relative to revenues. Nor does it increase the likelihood of a decline in the rate of return on the investment.

It is only the probability that the rate of return on the now reduced investment will fluctuate more widely than increases. Parenthetically, it is a curious fact that it is just this possible shortage in rate of return which the advocates of the operating ratio emphasize in their informal presentations, although they contend in the formal hearings that rate of return on the investment is an irrelevant consid-

eration,¹⁸ where the operating ratio method is employed.

IT is even said that the risk attaches to the utilities' expense not to their capital, and that the operating ratio method protects that risk.

This is the position of the ICC in Middle West General Increases where it says, "the owners of motor carriers can hardly be expected to look to the return on the amount of their investment as an incentive where the principal risk is attached to the substantially greater amount of expense." (Emphasis added.)¹⁹

The commission continued:

This is not to say that the rate of return on investment, comparisons of net income to capital stock, of the relation of debt-free property to capital stock, and other financial comparisons or studies are not useful in an appraisal of the financial condition and progress of the motor carrier industry. But for the purpose of determining the need of increases in rates, the criterion must be the carrier's cost.

Nobody has contended, even under the conventional rate of return method, that a utility should not get its "cost," including a fair return. In the instant case, the companies were already earning 18.25 per cent under the 1946 existing rates. How then could it be a question of "cost," and what does the use of the operating ratio contribute to that phase of the problem?

The operating ratio method as practiced, merely gives the utility a larger margin over cost than does the rate base-fair return method. That is its primary superiority from the utility's standpoint. If it did not accomplish that result it would be of no benefit to the truck and bus companies, and they

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would hardly be aggressive in promoting its use.

It seems a strange use of words to attribute risk to a company's expenses. Those are its debts, and it is an old saying that while a company's accounts receivable may not be 100 per cent good, its accounts payable always are. That is, there is no uncertainty, no risk, about such obligations to the debtor. The risk, whatever it is, is the risk of the creditor.

The danger of losing all track of the net investment, in connection with the conduct of rate cases, and the danger of considering such investment only in connection with "an appraisal of the financial condition and progress of the motor carrier industry" as advocated by the ICC, would seem to be emphasized by its approval of rates which, it appeared, would produce a rate of return of 53.8 per cent on net investment, before income taxes.²⁰ This rate of 53.8 per cent before income taxes was equivalent to 33.5 per

cent after income taxes at the then effective rate of 38 per cent.

In a truck case involving eastern common carriers, the ICC stated that a schedule of rates designed to yield the industry "an annual return of approximately 30 per cent on their operating property after providing for normal income taxes . . . appears to be reasonable."²¹ The operating property used amounted to \$12,407,393 which included \$3,117,198 of intangibles and property financed by borrowed money. The owner's equity was only \$9,920,195. On this, it appeared the owners would reap nearly 40 per cent after normal income taxes.

After only four years and some months of such 30 per cent rates, on the total property, the industry would have recovered its entire investment, tangible and intangible, borrowed money and equity, plus a 6 per cent return on the whole amount. And still no promise of a reduction in rates to the customer. What risk is being insured, by a continuation of the 30 per cent



VARYING RATES OF RETURN RESULTING FROM THE USE OF AN UNCHANGING OPERATING RATIO

	(1) Total Assets (Not Including Intangible Property)	(2) Total Operating Revenues	(3) Hypothetical Margin Of Profit Under a 94% Operating Ratio (6% × Col. 2)	(4) Rate of Return on Total Assets (Col. 3 ÷ Col. 1)	(5) Ratio of Total Operating Revenues To Total Assets (Col. 2 ÷ Col. 1)
Total Class I Motor Carriers of Passengers (local or suburban service) . . .	\$41,290,073	\$61,023,426	\$3,661,406	8.87%	1.5
Union Street Railway Company	\$ 2,733,429	\$ 1,803,934	\$ 108,236	3.96%	.7
Washington, Virginia & Maryland Coach Company	\$ 615,785	\$ 1,935,893	\$ 116,154	18.86%	3.1

Source: Interstate Commerce Commission's "Statistics of Class I Motor Carriers of Passengers for the Year Ended December 31, 1949." Table 56. Washington, D. C. June, 1951. Last three columns are computed.

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rate of return, after the fifth year? What kind of a balancing of the investor and customer interest is this?

Disadvantages of the Operating Ratio

THE viewpoint of this writer, then, is that the operating ratio, far from being a simple, accurate, and easy gauge of the proper margin of earnings, is, in fact, no gauge or standard at all. This seems to follow, necessarily, from a consideration of the so-called gauge itself. It is a mere ratio, and contains no inherent qualitative characteristics. It relates the amount of expenses to the amount of revenues, and indicates what proportion of the revenues is left over after the expenses are provided for, but whether that residue is too much, or too little, cannot be determined without reference to other factors. For the same ratio might provide one company with a lush reward for its services to the public, and not supply another company with even an ordinary rate of return; conceivably, not even enough to enable it to meet its interest requirements, if it were operating with a sizable amount of borrowed capital. This is illustrated in the table on page 491, where one company makes less than 4 per cent while another makes almost 19 per cent with the same hypothetical ratio.

By contrast, the rate of return method falls within a frame of reference; it gives one a number of dollars that can be judged against the cost of raising the utilities' capital, the number of dollars that are needed to rent the borrowed money, the number of dollars that are needed to enable the company to keep its promises to the preferred stockholders, and the number required to keep its common stock

in good standing in the market, and make it likely that the company can attract more bond, preferred, or common stock money, when and if it later appears that such capital is needed and can be advantageously used. One has some idea as to whether the rate of return found is reasonable or not.

SECONDLY, the use of the operating ratio is a delusive device when used to secure a rate of return which the industry admits that no commission could expressly grant. The method is the exact counterpart of the percentage of profit-per-dollar-of-sales method often used by private industry in reporting its profitability. By this method, a company may report that it has earned only a fraction of a cent or a modest number of cents per dollar of sales in the given period, although when effect is given to the rate of turnover of its capital—i.e., the ratio of its sales to its net assets—it may be found to be earning a very high rate per dollar of capital employed.

Thirdly, the method does not square with the standards prescribed by the U. S. Supreme Court for testing the return that is proper for a utility to earn. In 1923, the United States Supreme Court defined the fair rate of return in terms of what return is necessary to assure confidence in the company's financial soundness, enable it to maintain its credit standing, and to enable it to attract capital, or, in another passage, whatever is necessary "to permit it to earn a return on the value of the property which it employs . . . equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are at-



The Basis of Rate Reasonableness

“ONE cannot examine a given operating ratio and determine whether it, *PER SE*, will assure confidence in the company's financial soundness, enable it to maintain its credit standing, and enable the utility to attract capital. One must go on to other factors and tests, specifically those that are conventionally used in gauging the adequacy of a proposed rate of return. Thus the operating ratio method does not avoid the standards that have long been accepted . . .”

tended by corresponding risks and uncertainties.”²²

ONE cannot examine a given operating ratio and determine whether it, *per se*, will assure confidence in the company's financial soundness, enable it to maintain its credit standing, and enable the utility to attract capital. One must go on to other factors and tests, specifically those that are conventionally used in gauging the adequacy of a proposed rate of return. Thus the operating ratio method does not avoid the standards that have long been accepted, but in fact it requires their use.

Similarly, as to the utility's right under the U. S. Supreme Court's standards, to a competitive return on the nature of its property. The operating ratio method throws no light on how the utility is faring under that standard. Again, recourse must be had to

the factors that were already considered under the method which the transportation industry would like to abandon in favor of the operating ratio method.

If the Supreme Court had clearly fixed any top limit to rates that would protect the ratepayers against confiscation of their property (money in their pocketbooks), a limit comparable to the lower limit which it finds confiscatory of the utility's property, then the operating ratio could not provide the utility with a return much higher than the conventional method. It is only this lack of clear expression by the court of a ceiling (to match the floor) on earnings that makes it possible for the operating ratio to give the utilities such extreme, not to say fantastic, returns.

This preferential treatment disrupts the whole idea of a competitive, gen-

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erally uniform rate of reward to investment in public utilities, and theoretically overencourages the flow of capital into the local transportation industry, and discourages its flow into all of the other utilities. In a free market, this would lead to too much development of the transportation industry and to too little in the electric, gas, and telephone fields.

Of course, under the monopoly conditions existing, it does not lead to too much development in the transportation industry. The bus companies simply pocket the surplus earnings.

FOURTHLY, as practiced, its use tends to produce excessive earnings, earnings that quickly repay the entire capital supplied by the owner or owners of the utility, but no recognition of this fact appears in the commission orders. The high rates are continued year after year, just as if the original capital of the owner-operators still had to be insured against risk.

Utility rates are not comparable with long-term fixed-contract prices, nor are the associated risks comparable. The very availability of a relatively quick adjustment of rates constitutes the best possible insurance to the so-called risky utilities, and reduces by so much the very amount of the risk that adheres to the industry. Temporarily inadequate rates do not imply, under the established regulatory procedure, that such inadequacy will be perpetual. The commission's process is a continuing one, and the door is always open, when the utility can prove its case.

Even the operating ratio method looks to the rates to be charged as the method of insuring against risk. It

ostensibly only seeks the rate increase a little earlier; *i.e.*, in advance of the feared future decline in earnings, a decline that may not be realized for years, if ever.

The practice of having the riders, year after year, pay the company excessive rates in order to assure the company that in some future year its earnings will not fall below a reasonable level appears to be very costly to them. It would be far cheaper for the ratepayers to make good to the bus company any losses, following the occasional year when the earnings might fall off from the accepted standard.

FURTHERMORE, it ought not to be overlooked that the accepted standard already includes an allowance for this very risk. The 5.5 per cent-7 per cent customarily allowed on the entire nontransit utility investment is more than twice the rate of interest paid on government bonds. This excess, itself, is an insurance premium paid by the riders to the self-insuring, risk-taking operators of the utility. Not only so, but in so far as the bus company finances in part with borrowed money, at rates below the rate of return allowed over all, the remaining earnings will by this leverage, or trading on the margin, reap a rate of return *above* whatever over-all rate of return is allowed.

On the theory that if the bus company has a good case the appropriate regulatory commission will certainly correct any unfair rate situation within two years, it would seem that the creation of a stabilization reserve equal to (say) two years' fair return would furnish the company with adequate protection.

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It should not be forgotten that fluctuations in earnings that favor the bus company are possible, as well as those that work against the company. During World War II, for example, one metropolitan company reported operating ratios of 63.2 per cent, 68.2 per cent, and 73.4 per cent for the years 1943, 1944, and 1945, respectively, before income taxes.²³

Fifthly, when the device is used as a means of making the customers supply the utilities' fixed capital, it runs contrary to all accepted rate-making principles. The utilities are entitled to a return on the property used and useful that *they* devote to the service of the public, to a return upon *their* investment, but the public is not supposed to supply the capital and then pay the utility operators a reward related to their own supplied capital.

S*SIXTHLY*, the method is not properly applied when the risk is measured by the *expenses* of the utility. It is the capital (if the owner-operators supplied it) which they are risking, not the creditors' accounts receivable, which is what a utility's expenses are.

Seventhly, the operating ratio is misused when attention is not given to the practice by some bus companies of renting terminal and bus equipment and facilities. The Washington, Virginia & Maryland Coach Company in 1951 included \$135,418 in its operat-

ing rents-net, Account 5300, in respect to operating rents.²⁴

IN the course of its 1952 rate case, the company included about \$124,333 of operating rents on an annual basis, in its total expenses. This included the rent of all the terminal property and lease payments on the 42 leased busses which were about 30 per cent of the total operated.²⁵

This practice was called to the Interstate Commerce Commission's attention with the plea that such charges, in effect, included "below the line" expenses which were of the nature of a return on the capital employed. Under such circumstances, it was argued that the operating ratio should be adjusted to reflect the inclusion in operating expenses of a return on the capital invested, providing the method were used at all. The commission held that the "Protestant's position is untenable,"²⁶ and further stated:

The Uniform System of Accounts recognized the leasing of equipment and makes provision for reporting it as an operating expense.

Of course it does, but the question is whether such charges should receive special consideration when the operating ratio method is used, whether such charges do not have an effect upon what the appropriate operating ratio in the constant use is.

Under the conventional rate base-



Q "THE local transportation industry, freight and passenger, has, for some years now, been cultivating the idea that an operating ratio should be substituted for the conventional fair rate of return on the net investment as a standard in determining just and reasonable rates."

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fair return method, the rate base will be reduced by the leasing practice, and the riders consequently credited with the reduced rate base and the associated return, but if the inclusion of the rentals is not taken into account in determining the proper operating ratio, then the same operating ratio will be applied to two companies, one of which may own all of its terminal and equipment facilities, while the other rents all of it.

IN such a state of things, the renting company will be making a far higher—almost an infinite—return, perhaps, on its investment, while the owning company will be earning much more moderately. In such a case, the owning companies will be very short-sighted if they do not immediately switch over to the renting method, thereby pushing the return, in effect, “above the line,” with no reduction in

the number of dollars still coming to the utility owners as long as the operating ratio is to stay the same.

LASTLY, the similarity between the effects of the use of the operating ratio method and the effects of the use of the cost-plus system sometimes used on contracts may be noted. It is a commonplace that the cost-plus method encourages wasteful and careless performance of the contract. For this reason the original cost-plus method has in many, perhaps most, cases been modified to provide for a fixed fee over and above the expenses.

However, that is exactly what the operating ratio method does not do. In the case of the operating ratio, every increase in the expenses increases the profit, dollarwise, as long as the ratio itself is not changed. This is the exact opposite of an incentive to honest, efficient, and economical management.



Footnotes

¹ Re Honolulu Rapid Transit Co. (Hawaii, 1951) 90 PUR NS 129, 142.

² Middle West General Increases (1948) 48 MCC 541, 550; Alexandria, Barcroft, and Washington Fares between District of Columbia and Virginia, 48 MCC 613, 624.

³ Increased Commercial Carrier Truck Rates in the East (1943) 42 MCC 633, 650.

⁴ *Ibid*; also

Increased Common Carrier Truck Rates in New England (1943) 43 MCC 13, 23; New England, 1946 Increased Rates (1947) 47 MCC 509, 518; Increases, Middle Atlantic and New England, 1948 (1949) 49 MCC 357, 367; Increased Motor Carrier Rates in New England, 1949 (1949) 49 MCC 477, 488; and Increases, California, Arizona, Colorado, New Mexico, and Texas, 1949 (1950) 51 MCC 747, 761.

⁵ As defined in Increased Common Carrier Truck Rates in the East (1943) 42 MCC 633, 647, footnote 5. The ICC, in defining “direct operating expenses,” included operating rents (Account 5300), but excluded interest on debt, income and excess profits taxes, and miscel-

laneous income charges. Thus the margin between the direct operating expenses, so found, and 100 per cent of the revenues, would be equivalent to the net operating revenue, as carried in the utilities’ annual income statements, as filed with the ICC.

In later years, the ICC has computed the operating ratio both before and after income taxes. In Washington, Virginia & Maryland Coach Co. Inc. Cancellation of Tokens (1952) 54 MCC 317, 332, the commission even expressly included interest and other income deductions in arriving at an operating ratio of 94.10 per cent. (See, also, page 323.)

It would be helpful if commissions would adopt some uniformity in the accounts that they include and exclude. Otherwise, the operating ratios found by different commissions may not be comparable; neither may the ratios found by one commission be comparable with those found in earlier years by the same commission, if the make-up of the expenses changes.

If the dollar figures as to the revenues and expenses used in computing the operating

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ratio, as found, were customarily set forth, it would be possible to equate various operating ratios. At least this would be true where the figures were in agreement with those shown in the companies' annual reports to the commissions. At the least, it should always be made clear whether the operating ratio, as found, is computed before or after considering income taxes.

⁶ "Operating Ratio—A Regulatory Tool," by Charles Alan Wright, PUBLIC UTILITIES FORTNIGHTLY, Vol. LI, No. 1, page 26, January 1, 1953.

⁷ "Operating Ratio—A Regulatory Tool," *supra*, page 26.

⁸ Bluefield Water Works & Improv. Co. v. West Virginia Pub. Service Commission, 262 US 679, 692, 693, PUR1923D 11.

⁹ "Final Report of Special NARUC Committee to Study Principles of Rate Regulations in the Motor Bus Industry," Ray. O. Martin, chairman, page 10 of mimeographed copy of report presented at the 1952 NARUC convention.

¹⁰ Company's brief, page 13.

¹¹ "Operating Ratio—A Regulatory Tool," *supra*, page 28.

¹² *Ibid.*

¹³ Federal Power Commission v. Hope Nat.

Gas Co. (1944) 320 US 591, 645, 646, 51 PUR NS 193.

¹⁴ See footnote 6.

¹⁵ "Final Report of Special NARUC Committee," etc., page 5, also page 3 of Appendix A, and "Operating Ratio—A Regulatory Tool," *supra*, page 27.

¹⁶ Page 42.

¹⁷ See page 70 of source, as cited in footnote 13.

¹⁸ See Middle West General Increases (1948) 48 MCC 541, 552, for example.

¹⁹ (1948) 48 MCC 541, 553.

²⁰ Increases, California, Arizona, New Mexico, and Texas (1950) 51 MCC 747, 759.

²¹ Increased Common Carrier Truck Rates in the East (1943) 42 MCC 633, 650.

²² Bluefield Water Works & Improv. Co. v. West Virginia Pub. Service Commission, 262 US 679, 692, PUR1923D 11.

²³ Passenger Fares between District of Columbia and Near-by Virginia (1948) 270 ICC 651, 660.

²⁴ Annual report to the ICC.

²⁵ Washington, Virginia & Maryland Coach Co. Cancellation of Tokens, 54 MCC 317, 322, 329; also Company Exs. 15, 28, and 32 in that case.

²⁶ *Ibid.*, page 329.

Planners and Pressures

"ONCE the government undertakes to decide economic matters—the price of goods or the wages of labor, for instance—it is inevitable that the answers should turn out to be political answers. When prices are determined in the market place there is no call for a special interest group to pressure the government. When prices are to be decided by the government, then only by political pressure can each group fight its economic competitive battle.

"To denounce this is, of course, a vain thing unless we are going to change our form of government. The right of groups of people to use political pressure on the government is not the bane of democracy but its very essence. The only way to eliminate pressure from the bottom up is to have overwhelming pressure from the top down; a totalitarian system is the only one that can effectively curb pressure groups.

"To lament this situation is of more moment. But what is lamentable is not the existence of political pressure but the fact that economic matters—such as the wage you are paid for your labor—should become a matter of state and that you need to exert political pressure to get a wage increase.

"The source of the trouble, and the thing to be lamented, is not the injection of politics into economics but of economics into politics."

—EDITORIAL STATEMENT,
The Wall Street Journal.



Political Power of the Small Shareholder

Small business and small shareholders in Big Business have a popularity and influence by very reason of their smallness—sometimes out of proportion to their size. Here is an analytical report on the Yankee reaction to the idea of tying its power supply to Federal apron strings.

By ERNEST FREDERICK LLOYD*

POLITICAL thinkers have voiced the thought that a democracy which rests upon universal suffrage can preserve its freedom only if a preponderant number of the workers have a *property interest* in business.

No one has given that thought more cogent expression than Captain E. V. Rickenbacker, president of Eastern Air Lines, in a press report December 15, 1952. He announced the ownership by employees of 20 per cent of the corporation's capital stock:

This ownership of stock in your company is also putting in your hands the best possible weapon with which to combat the creeping Socialism and

deadly Communism which today are threatening the very system by which our country became great—free enterprise.

Those worker-owners are also political voters and the owner of one share casts as potent a vote as the owner of a million. Utility management has no more important public duty than to increase their number and give them accurate information. That applies to the whole working public.

WHYY not consider, therefore, a simple—uncomplicated—means for the more rapid extension of small ownership? To that end the electric utilities are the best possible medium

*For personal note, see "Pages with the Editors."

POLITICAL POWER OF THE SMALL SHAREHOLDER

at present for very positive reasons:

a) central station electric current is to be the main future source of energy for the nation's stationary power and light;

b) the continuing problem is to expand this service; saturation of demand is nowhere in sight;

c) expansion requires a continuing need for more and permanent capital in which any dollar is worth as much as any other;

d) no other investment is more stable;

e) no other enterprise is regularly in contact with so many people;

f) political control of the electric industry is Socialism's first objective; it underlies all the misleading propaganda about flood control, irrigation, navigation, regional development, rural supply, regardless of the merits of any of those objectives.

There seems little necessity for the complexities of method that encumber and impede all present methods for increasing the number of small holdings. It is needful only to apply the principle that underlies the ordinary bank savings account and the "piggy bank." These take advantage of the natural human instinct *to like to see things grow*. Employees, consumers, present stockholders, and workers in other fields are all equally valuable in the main purpose.

As a preliminary to any new course there are hurdles in laws and thought which appear in any development that has been exploited in its past. Some may be best repealed, others challenged in the courts on the common sense principles of the common law.

The argument for selling to anyone seems as fully defensible as for selling to any particular group. Recently a wide-awake company sent out to its stockholders a picture of delivery of five shares to a newsboy, the price saved up from his "profits." Who can evaluate the power for intelligent citizenship of that certificate in that boy's hand and in his own name? It exceeds even the worth of a savings account and does so many times over. For a savings account, not detracting in any way from its value, is something that can be drawn out and spent. But a stock certificate represents *property*, something tangible and permanent. When he looks at the smokestack of the power plant he has a sense of "belonging," it is partly his own. And if anyone thinks he will not read and be influenced by the literature the company sends him, that doubter has another guess coming.

THE first positive step by the company would be to procure authority to sell "over the counter" for cash at the market price, or at an authorized discount, a stated number of shares for capital expenditure. New authorizations to be applied for as needed.

The company would then set up a stock sales department, much as it has any other. Anyone laying down the cash or accumulating it by deposits to the amount of a share would have it issued to him. Stock exchanges work on that principle. Nobody questions the principle. Why all the fuss over existing practices? The company would properly report what it *had* done with the money received instead of, as now, what it *proposes* to do.

At this point the savings principle

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Q "THE politician, by the very nature of this calling and in its highest expression, deals with conflicting ideas and seeks to reconcile them by majority assent to some course to which all will conform. But industry is factual; two plus two will add up to nothing but four, which means that somebody pays the cost of anything, be it what it may."



enters. A bank will receive any sum at any time as a savings deposit and duly credit interest upon it; it becomes part of the funds the bank can loan. In the same way, any sum paid in for stock purchase would be credited to the depositor's account for the issuance to him of a share when the deposits amounted to the market price of a share. To his account deposits would be duly added interest. And, because the deposit at once enters the company's capital, the rate of interest should be the same as the current dividend on the common stock. The buyer should be entitled to say whether single share certificates should be issued to him. But the "piggy bank" accumulation does not preclude taking out ten pennies and substituting a dime. And it is to be remembered that there is a profound psychological effect in actual possession of what has been earned, bought, and paid for.

EMployees could authorize deductions from payroll and determine and vary the amounts at their own option. Why not? On one point it would seem wise that the company might exercise authority or at least strong pressure; namely, that a married employee should have stock issued in joint name with wife. The point involved is working efficiency. Whether a woman employee should join her husband is an open question.

We seem to be on the verge of realizing that corporations are properly social as well as economic institutions and have civic as well as business duties. This is a new field for management, misty but looming. There is a line, not too easily drawn, between paternalism and rules that conserve the social order. It would certainly not be socially just that a husband might unduly deprive his family to build a personal estate, nor that a working mother should have to share her careful provision with a worthless husband. What is said here is merely to indicate that there should be the greatest possible freedom and self-determination by the employee in respect of his buying without the company becoming a party to the abuse of that freedom. A company would be only an original seller; it would leave all brokerage to existing channels.

CONSUMER stockholding is as important to the company and therefore to the industry as is the employee. Again, we have the political influence of the small investor. The same applies to existing stockholders.

The incident of the newsboy is eloquent of the value of drawing in the public and especially the young public. The mere sense of personal importance attaching to the personal ownership of a share of stock and the

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quarterly receipt of dividends and company literature are guaranties that what the company says will be read, and read with a willingness to believe. The possibilities of that influence for the long pull cannot well be overestimated. And it as well imposes on the company the vital need to avoid either the semblance or the reality of propaganda; every statement must be factual, every refutation of political demagoguery must be coldly analytical. It is youth that asks disconcerting questions.

Some of the newer companies resulting from the holding company breakups are finding the small stockholding a financial burden. One of these, having some 68,000 stockholders, finds it has some 20,000 of them owning an average of only four shares each in a top holding of nine shares. Accordingly, it has set up a department to aid the buying of shares to make up a holding of ten or to sell a lesser amount. The emphasis, however, is on selling. Quite rightly, from a strictly financial standpoint, it shows the cost of servicing these small accounts. But it would seem to be a far wiser course to suggest to these small holders that they authorize the withholding of the small dividend sums to build up to added full shares, offering to add any cash the owners might remit, pointing out that the dividend rate is higher than savings interest, and perhaps even offering to supplement the dividend accumulations with some of the savings from the ordinary servicing of these small holdings. The political vote of those 20,000 small holders, however scattered, to say nothing of

their family influences, is not to be despised. More particularly is that so when it is remembered that this company is but one of several hundred others in like circumstances.

THE new duty of management to the public was almost for the first time given expression at the last meeting of the National Association of Manufacturers, to undertake to lead the public thought in the field of industry.¹ The politician, by the very nature of this calling and in its highest expression, deals with conflicting ideas and seeks to reconcile them by majority assent to some course to which all will conform. But industry is factual; two plus two will add up to nothing but four, which means that somebody pays the cost of anything, be it what it may. Economical electric service is a matter of facts, not of argument, and the facts are a matter of accountancy. That is the yardstick. If the facts, carefully and readably presented, are put before enough voters who have a direct personal stake in the result, the demagogue and the ideologist will alike find themselves worsted.

¹ Since the above article was prepared a press release stated that bank deposits by schoolchildren in the 154 communities where school savings accounts are offered now total \$60,000,000, according to Chamber of Commerce of the United States. The 1,984,396 youngsters with school savings have increased their average deposit from 24.21 in mid-1950 to 30.54—*New York Times*, January 5, 1953.

Either of those averages would cover the market price of a share of common stock in most of the communities. Or a deposit with the local electric utility would not take long to build up to a share. The delivery of a certificate for just one share would be as important an event to the youngster as it was to the newsboy and the company has added a valuable supporter to its ranks.



Washington and the Utilities

Impact of the Roanoke Case

IT will probably be many months before the dust settles in the field of public utility regulation and operation from the detonation of the Roanoke Rapids decision. This 6-to-3 ruling by the U. S. Supreme Court culminated three long years of litigation, during which the Interior Department overlooked no opportunity to block or delay hydro licensing of the private utility company.

That was, of course, the Interior Department as organized under former President Truman's appointee, Secretary Chapman. In retrospect, the dilatory tactics seemed almost to approach sheer obstruction. Chapman had a very definite objective in his method, and his chances of success were about as good—in the final analysis—as the Democratic nomination for the presidency last November.

It was on October 6, 1948, that the Virginia Electric & Power Company filed an application with the Federal Power Commission to construct and operate a hydro project on the Roanoke river near Roanoke Rapids, North Carolina. It was on March 17, 1950 (three years lacking one day before the Supreme Court decision), when an FPC examiner recommended issuance of the license.

It was at this point that Chapman went into action, personally, by filing a motion to reopen the case for additional evidence. In November, 1950, the examiner filed a supplemental decision confirming his earlier report. Upon exceptions taken by the Secretary of Interior, full arguments were heard by the commission, which backed up the examiner's view with an order dated January 26, 1951 (87 PUR NS 469). An appeal was filed by the Secretary of Interior in the Fourth U. S.

Circuit Court of Appeals in Richmond, Virginia, resulting in a complete affirmance of the FPC in a thundering opinion written by Chief Justice Parker on October 1, 1951 (91 PUR NS 366).

AGAIN, appeal was taken by Chapman in the form of petition for a writ of certiorari, which was granted about a year ago by the U. S. Supreme Court. Then followed a special delay requested by the Secretary for the submission of additional argument, which made it impossible for the case to be heard in time for decision before the summer recess of 1952.

The case was not finally argued until the fall of last year, and did not reach consideration until after the election. Apparently the Interior Department strategy was to string the case along in the hope that a Democratic victory would confirm Secretary Chapman's public power policies—repeating the experience of the department following Truman's upset victory in 1948. If that had happened, a Democratic Congress would probably have been elected and the prestige and influence of a new Democratic administration would doubtless have bailed Chapman out of any difficulty his program might have gotten into over Roanoke Rapids.

This is not to suggest that the Supreme Court itself would read the election returns as literally as the fabulous Mr. Dooley once contended. But a Democratic 83rd Congress would have been in a position to step into the breach and reserve the contested Roanoke site for Federal development by statutory action.

It was a chance worth taking, considering the importance which Secretary Chapman and his public power policy ad-

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visers set upon the blocking of such private company hydro developments. Political fortune ruled otherwise, however, and so did the U. S. Supreme Court. Thus, instead of Chapman being able to take a bow in the rôle of the little Dutch boy with his finger in the dike, his Republican successor, Douglas McKay, finds himself in the rôle of a Secretary of Interior, holding his predecessor's empty bag.

FPC Paramount in Licensing

REGARDLESS of politics, any Secretary of Interior likes to have his department recognized as having power and authority comparable, if not paramount, to other Federal agencies. But Secretary McKay, thanks to the issue so bluntly forced by Chapman, now finds his department definitely set back in the challenge over the right of FPC to issue hydro licenses.

Conversely, the FPC emerges as the nation's top administrative agency in determining whether hydro projects shall be publicly or privately developed. Such was the import of the majority decision by Justice Frankfurter.

Indeed, the Roanoke decision, in the view of some legal observers, goes somewhat further than deciding between the relative authority of FPC and the Interior Department as a resource development agency of the United States. The Frankfurter opinion holds that, subject to congressional direction, that commission has a positive duty (under § 7(b) of the Federal Power Act) to reject any private application for a project affecting any development of water resources which, "in the judgment of the commission, should be undertaken by the United States itself."

If the Interior Department contentions had prevailed (as interpreted in the dissenting opinion by Justice Douglas), the Secretary of Interior would have been in a position to pre-empt for public development any hydro site which might be part of a general basin plan approved by Congress, even by inference or implication. This would have reduced the

FPC to a mere administrative bureau, to carry out over-all policy decisions of the Secretary of Interior. FPC's status as an independent licensing agency would be at an end.

THE majority decision raises the question, however, whether Congress ever really intended to delegate such sweeping public *versus* private policy discretion to the FPC as the Frankfurter opinion implies. There may be good grounds for a congressional review of its own legislative authority in this field, and what it intends to do about it.

One likely prospect, which follows as a result of the Roanoke decision, is the likelihood that Interior Secretary McKay will get out from under in a parallel case involving a hydro license on the Kings river in California. This case was not exactly on "all fours," as the lawyers say, with the Roanoke Case. But the Pacific Gas and Electric Company, licensee on the Kings river site, was encountering the same persistent obstruction and delays from the Interior Department as the Virginia Electric & Power Company had experienced in the Roanoke Case. The latter decision, plus a turnover in Interior Department's legal counsel, is likely to make the department lose its appetite for further prolonged litigation along this line.

A New REA Administrator

E. C. JOHNSON, formerly assistant deputy land bank commissioner in the Farm Credit Administration, will represent Agriculture Secretary Ezra T. Benson in all matters affecting the Rural Electrification Administration, pending the appointment of a new Administrator.

Benson's top hand, Under Secretary True D. Morse, announced Johnson's designation as assistant to the Secretary on March 18th. His assignment to REA is "an interim arrangement," he specified. (Morse was Acting Secretary while Benson was at St. Thomas, attending a meeting of the Virgin Islands Corporation.)

The new Administrator of REA, when

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named, is expected to be Lieutenant Governor Ancher Nelsen of Minnesota. Nelsen disclosed at St. Paul that Benson had suggested that he "consider the possibility of becoming Administrator," but nothing was "on the dotted line."

Nelsen, a farmer, was elected lieutenant governor last November. Prior to that he served in the state senate and played a leading rôle in drafting the farm plank of the Republican platform last July.

Democrat Claude R. Wickard resigned from the \$15,000-a-year REA post on March 19th, more than two years before the end of his term.

Representative Poage (Democrat, Texas) and Senator Hill (Democrat, Alabama) were bitter in their criticism of what they charged was Wickard's "ouster" by the Republican administration, notwithstanding his unexpired statutory tenure. "For the first time in all of these years," Hill said, "politics has been brought into the REA."

THIS was good for a loud laugh on the Republican side of the aisle. It also stirred memories of firings or forced resignations during the Roosevelt administration. Wickard's predecessor, as REA Administrator, the late Harry Slattery, incurred the displeasure of the President who had appointed him. When Slattery at first refused to take the hint about resigning, an Agriculture Department memorandum ordered all REA personnel to report to the Administrator "through the Deputy Administrator." This left Slattery in splendid isolation; able to go to his office and draw pay, but little else. After a few weeks of thumb twiddling, Slattery gave up and resigned.

Republicans also recalled the late chairman of the TVA, Arthur E. Morgan, who actually went to court over the right of President Roosevelt to fire him for "contumacious" conduct. Morgan lost in the U. S. Supreme Court, which made a distinction between administrative offices (subject to firing) and regulatory commissions (not subject to firing) under the earlier Humphrey decision. It could be that Wickard thought of these

things in deciding to go along quietly. He leaves many warm personal friends in the nation's capital.

Natural Gas Problems

SEVERAL natural gas regulatory bills have appeared in Congress in anticipation of forthcoming committee hearings regarding FPC operations. Representative Priest (Democrat, Tennessee) has introduced a bill (HR 3707) which would prevent FPC from regulating distribution of gas from the point it leaves facilities for transportation in interstate commerce, even though the same company may have handled the interstate transportation. A slightly different bill (HR 3769) to relieve natural gas companies from FPC regulation has been introduced by Representative Hinshaw (Republican, California). It provides for amendment of the Natural Gas Act, § 1, exempting a transmission line or distribution system from FPC control, if the line or system already is subject to state commission regulation. An identical bill (HR 3892) has been introduced by Representative Harris (Democrat, Arkansas).

FPC testimony before the House Interstate Commerce Committee has been postponed once again. When it does get under way, the chairman of the commission will appear first, followed possibly by other members of FPC. Shortly thereafter, Representatives who have introduced proposed legislation to amend either the Federal Power Act or the Natural Gas Act will be given an opportunity to testify on the need of their measures. At a slightly later date, industry spokesmen invited to testify by Chairman Wolverton (Republican, New Jersey) will have an opportunity to relate industry problems arising from FPC regulation. Paul Kayser, president of El Paso Natural Gas Company, is slated to tell the committee about the general problems faced by transmission companies. Others will discuss distribution company problems and the development of pipeline safety codes.

Exchange Calls And Gossip



Doerfer Named to FCC

JOHN C. DOERFER, of West Allis, Wisconsin, chairman of the Wisconsin Public Service Commission, was nominated by President Eisenhower last month to be a member of the Federal Communications Commission.

Doerfer was nominated to the unexpired term of Eugene H. Merrill of Utah, whose nomination was withdrawn on March 20th. Merrill was serving under a recess appointment from former President Truman.

Walker Defends FCC Policy

LEGISLATIVE rule making by a regulatory commission was defended by Federal Communications Commission Chairman Walker at hearings before the House Interstate Commerce Committee last month. The committee has been engaged in scrutinizing the procedures and practices of Federal regulatory bodies. Representative Schenck (Republican, Ohio) noted that the Communications Act of 1934 was a relatively brief document when compared with the orders, rules, and regulations of FCC. Schenck asked whether such rules and regulations should be submitted to Congress in order to test their conformity with congressional intent.

Chairman Walker thought such a procedure would be unnecessary, pointing out that Congress could call upon the FCC at any time to determine if congressional intent were being violated. Chairman Wolverton (Republican, New Jersey) declared that it would be impossible for Congress to attend to all the details of checking the rules and regulations

by the method proposed by Schenck and agreed with Walker that FCC officials could be summoned if it were deemed necessary.

Nevertheless, dissatisfaction with some of the commission's actions, particularly with respect to color TV, was expressed by members of the committee. Full hearings on this matter are expected to be called in the near future. "At times I have been greatly shocked by actions taken by commissions" as interpretation of congressional intent, Wolverton said. "I have felt at times that the commissions did 'legislate.'" The committee chairman said that he has now come to the conclusion that this is part of court and Federal agency procedure at present.

RESPONDING to a question as to the common carrier status of TV, Walker replied that since radio broadcasting and TV are not considered a monopoly, they are not regulated as "common carriers." Walker was also questioned on the possibility of improving rural telegraph service. Representative Springer (Republican, Illinois) cited the need for improvement of service in small communities with populations ranging from 3,000 to 15,000. Springer said he understood the problem of service was owing to a lack of revenues. He said he had heard that American Telephone and Telegraph Company earned \$70,000,000 through its teletype and TWX service and raised the question of possible integration of these services with those of Western Union with a view to helping Western Union improve its rural service.

Walker said that if an attempt were made to improve telegraph service gen-

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erally, such a plan of integration suggested by Springer would certainly be considered. Walker doubted, however, that it would help rural areas, pointing out that they are largely dependent upon telephone service and that all telegrams are "phoned in." Attention was called to the fact that the \$70,000,000 "earnings" cited by Springer were revenues and not profit. Integration would not necessarily bring additional revenues to enable Western Union to open agency offices in rural areas.

Walker told Representative Hale (Republican, Maine) that the telegraph business has been at a disadvantage, lacking enough revenues to maintain stations and agencies where they should have been maintained. He added that trends in the telegraph industry noted five years ago had not been reversed.

Phone Companies Purchase Private Wire Facilities

THE Federal Communications Commission has approved the purchase of the Phillips Petroleum Company's private wire communications facilities by two operating units of the Bell telephone system and the General Telephone Company of the Southwest. The approval was based on an application filed jointly by the Southwestern Bell Telephone Company, the Long Lines Department of the American Telephone and Telegraph Company, and General Telephone.

Under terms of an agreement outlined in the application, the telephone companies would purchase approximately 10,000 miles of circuits and 1,300 miles of pole line. The telephone companies plan to supplement Phillips' facilities with their own to provide the petroleum company with a more extensive network of telephone and teletypewriter services.

The projected network would connect Phillips' installations and offices in Arkansas, Illinois, Kansas, Missouri, New Mexico, Oklahoma, Texas, Louisiana, Indiana, Colorado, Wyoming, Utah, Idaho, Montana, and Washington. It would consist of a 75-circuit private line

telephone system serving more than 100 pumping stations and offices, with additional lines to connect field locations and remote offices. In all, 9,100 miles of private line telephone circuits will be provided.

To permit fast-written communications, six private line teletypewriter circuits serving 26 cities also will be made available. This 4,500-mile private teletypewriter system will be supplemented with teletypewriter exchange service. A Bell telephone system spokesman said, "Flexibility of the Bell system's nationwide network of radio-relay, cable, and wire facilities will increase dependability by making it possible to reroute circuits in emergencies."

Higher Nevada Rates Approved

NEW telephone rates—higher than those sought by the Bell Telephone Company of Nevada in 1950—have been rejected by the Nevada Public Service Commission. At the same time, however, the commission said it would approve the rate raise sought by the company in 1950 and first rejected by the commission.

The rate increases sought by the company in 1950 were turned down by the commission, but the utility took the case to the Nevada Supreme Court and won a favorable decision. In its 1950 rate application, the company made no mention of increasing coin-box calls from five to ten cents. Under the new tariffs submitted to the commission early last month, business and residence phone bills would have been increased 75 cents a month over the amount originally requested.

The chairman of the Nevada commission had sought an opinion from the state attorney general on whether the new proposals were legal in light of the supreme court decision, and whether the commission should order into effect the new rates or those originally asked by the company. Commission Chairman Robert A. Allen pointed out that the new rates had never been considered either by the commission or the courts.

Financial News and Comment

By OWEN ELY



Proposed Merger of Puget Sound-Washington Water Power

DURING the past decade the private utilities in the Northwest have been "between two fires." On the one hand, some of them had to depend on Bonneville for a good part of their power supply, especially as they were emerging from holding companies and were not in strong position (as were the big California utilities) to finance expansion programs. On the other hand, being in a state somewhat noted for public ownership trends, they were subject to condemnation proceedings brought by public utility districts and municipalities, to obtain parts of their properties. The relations between the PUD's and the private utilities have been enmeshed with state politics for a decade or more. The situation has been complicated by (1)

the insatiable demands for power in the area, due to the needs for irrigation and for production of aluminum, atomic energy plants, and other defense activities, coupled with the rapid growth of the area; and (2) the fact that hydro power furnishes a substantial part of the supply of electricity and is subject to the usual fluctuations.

The Bonneville Power Administration recently forecast a power shortage in the Northwest of some 3,000,000 kilowatts in 1960-61, even if Federal funds are made available to complete the projects on the Columbia river on schedule; however, if funds should also be forthcoming for early starts on certain new projects (many of them controversial) it estimated the deficiency would be reduced to 360,000 kilowatts. This forecast seems to follow the former propaganda "line" of the Interior Department in disparaging or ignoring the part which private power might play in expanding the over-all generating capacity of an area. In the Northwest the situation has become acute because the aluminum industry was encouraged to come into the area to obtain cheap hydro power, while adequate future power was not assured by a combined program of public and private development.

As President Frank McLaughlin points out in the annual report of Puget Sound Power & Light for 1952, "the seat of the power supply difficulty lies in

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the fact that, although the Federal government long ago assumed the responsibility of major supplier for the region, it has failed to keep installed capacity adequate to provide for load growth. The lack of a clear-cut Federal power policy and of an orderly, well-co-ordinated, long-range program geared to the requirements of the region, including the defense effort, has been emphasized by Puget for some time. Since the national elections last November there have appeared in press releases various proposals which seek local instead of Federal control of the development and operation of major generation facilities on the Columbia river and its tributaries. It is believed that such proposals have fundamental merit if pursued on the premise that Congress and the several states will take such action as is necessary to assure to the region adequate low-cost power with all customers treated alike."

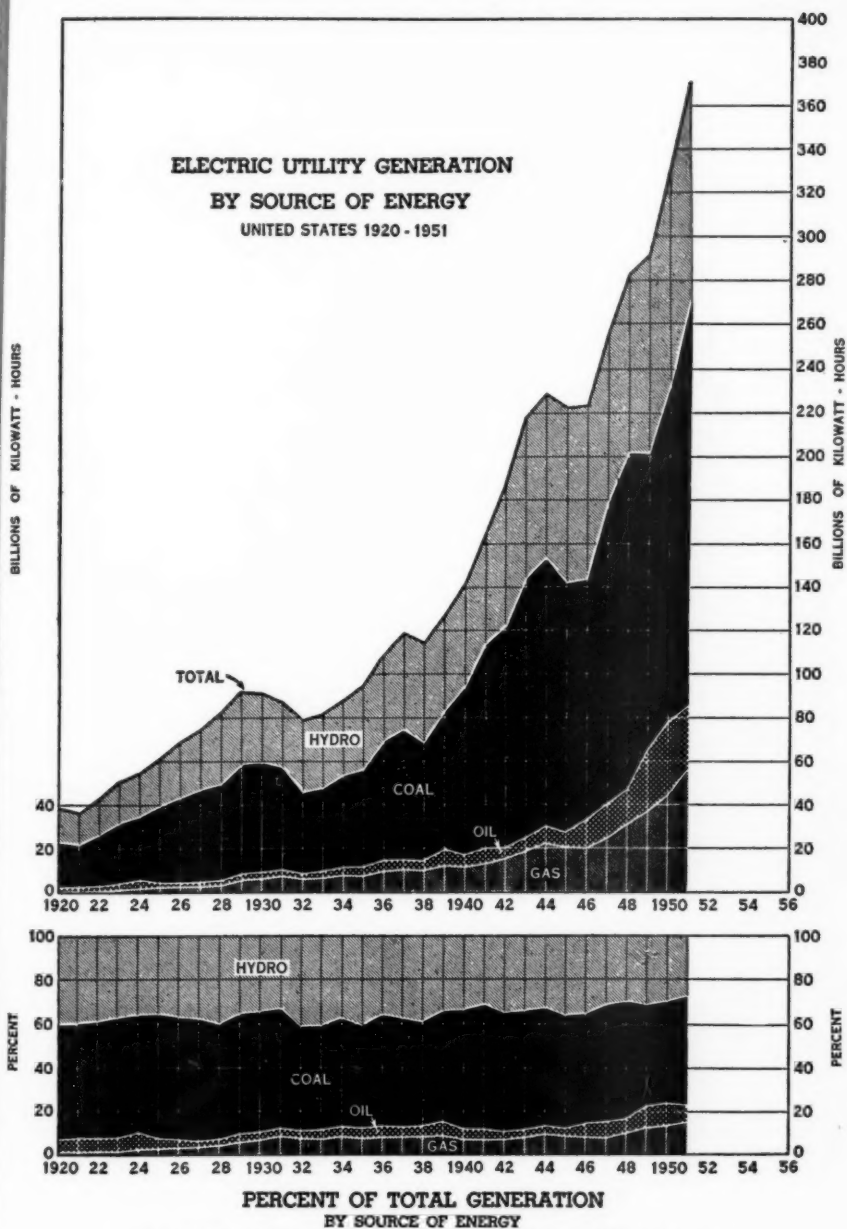
Why haven't the private utilities played a larger rôle in developing power in the Northwest? One reason would appear to be that the development of hydro power has been so largely in the hands of the Federal government; Idaho Power has probably been held back by the dispute over the Hell's Canyon development, but Washington Water Power in 1952 virtually doubled its hydro capacity by building the Cabinet Gorge plant. Portland General Electric has apparently been content to obtain nearly three-quarters of its supply from the Northwest Power Pool (in the twelve months ended June 30, 1952). Pacific Power & Light in this period obtained 56 per cent of its needs from the pool, Washington Water Power 33 per cent, Utah Power & Light 24 per cent, and Puget Sound Power & Light only 6 per cent. The power thus furnished to the private utilities through the pool was supplied 85 per cent by Bonneville and 15 per cent by Montana Power, Idaho Power, and British Columbia Electric.

WHILE Puget Sound Power & Light has thus been in a relatively strong

position with respect to its power needs, it has been continuously harassed by PUD's and the municipalities. In 1948 the company sold parts of its property to the PUD's for about \$14,000,000, and in 1949 for \$16,500,000; in 1951 its electric properties in the city of Seattle were sold to the municipality for \$26,800,000. There are PUD's in 8 of the 11 counties in which the company now operates, and in 6 of them condemnation actions are pending against portions of the Puget Sound property, in addition, 6 municipalities have filed such suits. As President McLaughlin stated a year ago, "These condemnation actions impose a death sentence. . . . There is no other private utility in the country which is victimized as is Puget."

Puget's performance in the past decade has been remarkable: Net income in 1952 remained about the same as in 1943, despite the facts that (1) net plant account had declined about 10 per cent; (2) Puget had been forced in recent years to dispose of electric properties which, at the time they were sold, accounted for about 60 per cent of electric revenues; (3) electric revenue per kilowatt hour had decreased some 16 per cent since 1943; and (4) wage rates, material costs, and taxes had about doubled during the period. If some \$1,000,000 of excess steam costs had not been incurred in 1952 (which will be recovered through higher rates in 1953) net income for 1952 would have been almost 15 per cent over that of 1943.

MR. McLAUGHLIN finally decided that the best way out of the company's difficulties would be to sell Puget's remaining property as a unit to the PUD's, rather than have it dismembered piecemeal. After many years of political quibbling permissive state legislation had been enacted and tested in the courts. A proposal for the sale of Puget to seven PUD's was engineered by Guy Meyers, who some years previously had acted as agent for the Nebraska Public Power System in buying the private utilities in that state. A large banking group headed



Generation by Coal, Oil, and Gas prior to 1938 approximated. Minor amounts by Wood and Waste Fuels included with Coal.

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by Halsey, Stuart & Co. was formed to handle the sale of PUD revenue bonds, but the deal was beset by one difficulty after another. First, Whatcom county withdrew from the group, preferring to make a separate purchase, and later Kitsap County PUD withdrew from direct participation.

The banking group finally proposed the sale of \$107,050,000 revenue bonds, to be issued jointly by public utility district Nos. 1 of Chelan, Jefferson, Skagit, Snohomish, and Thurston counties in the state of Washington. The stockholders of Puget Sound ratified the proposed sale at a special meeting on October 27, 1952, and it looked as though the sale would be consummated.

IN the meantime, however, Washington Water Power Company on October 9th sent Puget a letter proposing negotiations to work out a merger between the two companies. Since the PUD sale was so close to consummation, President McLaughlin at that time was not disposed to consider merger negotiations.

Apparently, President Robinson of Washington Water Power decided to apply "pressure tactics"—in any event the PUD sale became clogged in a maze of litigation, first in Boston in connection with the stockholders' meeting, and later in the state of Washington where the Kitsap County PUD became the center of legal controversy. To quote Puget's 1952 report to stockholders:

Due to lawsuits and other obstructive actions by opposition interests—obviously master-minded and backed by Washington Water Power—it has not been possible for a banking group to complete the necessary financing with the result that the consummation of the district purchase has been delayed. The PUD's are endeavoring to have the pending litigation diligently prosecuted so there will be final determination of the issues by the state supreme court at the earliest possible date. It is the opinion of company, PUD, and bond counsel, that the Kit-

sap and Thurston lawsuits lack basic merit and are groundless.

Halsey, Stuart & Co., heading the banking group, attempted to proceed with the sale of the bonds with a provision for delayed delivery subject to clearance of litigation (as had been successfully done with a large issue of turnpike bonds), but this finally proved impracticable. The purchase agreements with the PUD group expired February 27th but Mr. McLaughlin obtained an extension to July 31st; in the meantime he announced that he would conduct merger negotiations with Washington Water Power and that the PUD agreement would be terminated immediately if a merger was arranged.

Two informal proposals had earlier been made by Kinsey Robinson of Washington Water Power for an exchange of shares. The first, made October 9th, consisted of two alternative proposals, one for a share-for-share exchange, and the second for one share of Washington and \$27.50 cash for each two shares of Puget. In January the plan was amended to provide that Puget stockholders could either make an even exchange or receive \$27 cash per share. These proposals proved unsatisfactory to Frank McLaughlin of Puget, he terming them inadequate, invalid, and unworkable.

On March 16th it was announced that the directors of Washington Water Power had approved a new merger offer, as follows: Each share of Puget Sound would receive one-half share of new Washington Water Power convertible cumulative \$1.28 preferred stock, and one-half share of common. Puget stockholders also would have the right to ask for \$27 per share cash in lieu of the package of new securities, but if the number of Puget stockholders electing cash combined with those voting against the merger should exceed 50 per cent of the total Puget common stock outstanding, the merger would not become effective. This provision was to assure a nontaxable status for the exchange of shares.

FINANCIAL NEWS AND COMMENT

The new convertible preferred stock would be callable at 27 on thirty days' notice, with right of conversion to the call date. It would be convertible for sixty days after the effective date of the merger on a share-for-share basis, for three years thereafter at the rate of 1.1 preferred shares for each share of common, for the next three years at the rate of 1.2 preferred shares, and thereafter at the rate of 1.3 shares for 1 common.

If the plan is approved by the directors

of Puget Sound as anticipated, it will then need approval by the FPC and by the utility commissions of the states of Washington and Idaho, while the SEC will have to pass upon the registration statement. Finally, the stockholders of both companies will have to give their approval of the merger.

FOLLOWING announcement of the new plan, Washington Water Power common was selling on the New York



PRINCIPAL PUBLIC OFFERINGS OF ELECTRIC AND GAS UTILITY SECURITIES

December 1, 1952, to February 28, 1953

Date	Amount (Mill.)	Description	Price To Public	Under- writing Spread	Offer- ing Yields	Moody Rating
<i>Mortgage Bonds and Debentures</i>						
12/2	\$16.5	Cons. Gas E.L. & P. Conv. Deb. 3½s, 1967	100	**	3.25%	Aa
12/3	15.0	Florida Power Corp. 1st 3½s, 1982	101.80	.57	3.28	A
1/22	12.0	Kansas City P.&L. 1st 3½s, 1983	101.35	.62	3.18	Aaa
1/22	22.0	Ohio Power Co. 1st 3½s, 1983	102.63	.54	3.24	Aa
1/29	8.0	Iowa-Ill. G.&E. 1st 3½s, 1983	102.38	.59	3.25	Aa
2/4	12.0	Southwestern P.S. 1st 3½s, 1978	101	.75	3.44	A
2/10	30.0	Tennessee Gas Trans. 1st 4½s, 1973	101.30	1.12	4.03	A
2/18	40.0	Cons. Edison 1st 3½s, 1983	102.25	.69	3.38	Aa
2/19	7.0	Iowa Southern Util. 1st 3½s, 1983	102.60	.69	3.73	Baa
2/19	25.0	Niagara Mohawk Power Gen. 3½s, 1983	101.75	.65	3.41	Aa
<i>Preferred Stocks</i>						
12/16	\$ 5.5	Western Nat. Gas 5% Conv. (\$30 par)	30	—	5.00	
1/15	15.0	Ohio Edison 4.44%	102.50	2.08	4.33	
1/22	8.0	Northern Indiana P. S. 4½%	100	2.00	4.50	
1/22	10.0	Ohio Power 4.40%	103	1.76	4.27	
1/29	6.0	Iowa-Illinois G. & E. 4.36%	102.13	1.59	4.27	
2/4	2.0	Southwestern P. S. 4.60%	100	2.00	4.60	
2/5	7.5	Illinois Power 4.42% (\$50 par)	51	1.00	4.33	
2/11	10.0	Equitable Gas 4.50% Conv.	102	2.10	4.41	
<i>Common Stocks—Subscription Rights</i>						
1/6	.2	Southwestern Electric Service	15	*	6.40	9.2%
1/9	16.8	Ohio Edison	35.25	.23	6.24	8.9
1/16	21.6	Consumers Power	35	.20	5.71	7.0
1/23	9.0	West Penn Electric	34	.14	6.47	8.9
1/29	3.2	Minneapolis Gas	20	—	5.75	6.0
2/3	7.3	Louisville Gas & Electric	36.50	.51	4.93	7.8
2/4	6.3	Southwestern Public Service	21.50	**	5.58	6.3
2/19	4.3	South Carolina E. & G.	12	**	5.83	6.7
<i>Common Stocks—Other New Money Sales</i>						
1/14	7.3	Toledo Edison	12.25	—	5.72	7.6
1/16	17.8	Southern California Edison	35.75	.67	5.30	7.8
2/5	9.9	Illinois Power	39.63	1.17	5.55	6.7
2/17	27.5	Niagara Mohawk Power	27.50	.56	5.82	6.4

*Not underwritten.

**Special underwriting arrangement.

PUBLIC UTILITIES FORTNIGHTLY

Stock Exchange around 30, and Puget Sound overcounter around 27. Washington's new convertible preferred stock would (when issued) obviously sell initially around the same level as the common, and might have an estimated price "floor" around 27, at which price it would yield about 4.74 per cent. It is estimated that if all the convertible preferred were converted into common (which of course could be forced by calling the stock for redemption) the merged company would have about 54 per cent debt and 46 per cent equity ratio, excluding intangibles. We estimate that this strong capital structure would permit senior financing of as much as \$100,000,000 future construction while still maintaining a 30 per cent equity ratio.

With 1953 earnings for each of the two companies estimated around \$1.80 a share, *pro forma* combined share earnings after the merger would be at the same level. If a future expansion program of about \$100,000,000 were to be financed through issue of senior securities only, the earnings potential of the new common stock could probably be raised to an estimated \$2.30 (assuming 6 per cent earnings on the new plant). However, it may be noted that Washington Water Power had previously been expected to pay partially tax-exempt div-

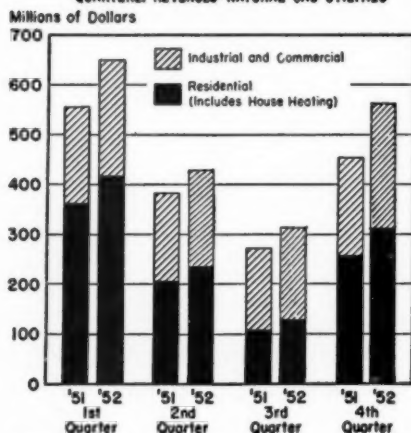
idends for four years starting in 1954. The merger would have the effect of deferring and reducing, or possibly even eliminating, this benefit, it is reported.

New Indexes of Natural Gas Stock Prices and Yields

MOODY'S INVESTORS SERVICE is now compiling a new series of weekly indexes for prices and yields of natural gas companies, and these are also compiled on a monthly basis by the American Gas Association. Three categories of companies have been selected to represent the natural gas industry in the new indexes. The first includes 30 companies whose stocks are traded on organized exchanges or have an active over-the-counter market. This group includes 10 transmission companies, 10 distribution companies, and 10 companies having both transmission and distribution facilities. Another group includes the 10 companies with transmission operations and the third index comprises the 10 distributing gas utilities used in the over-all index. The table at top of page 513 shows some of the figures issued by the AGA.

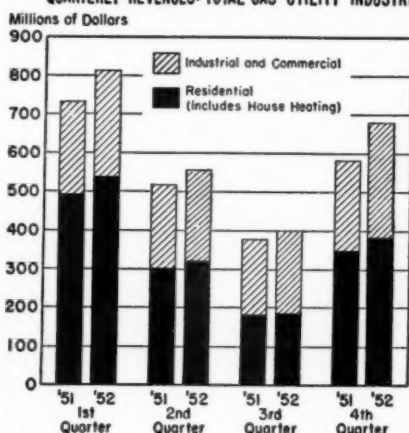
The average price for 30 natural gas companies' stocks on February 27th was about 8 per cent higher than a year

QUARTERLY REVENUES: NATURAL GAS UTILITIES



APR. 9, 1953

QUARTERLY REVENUES: TOTAL GAS UTILITY INDUSTRY



FINANCIAL NEWS AND COMMENT

	2/27/53	1952-53 High	1952-53 Low
Prices			
30 Natural Gas Stocks*	29.32	29.32	25.97
10 Gas Transmission Stocks	36.27	36.33	30.96
10 Gas Distribution Stocks	20.54	20.89	19.07
Yields			
30 Natural Gas Stocks*	4.81%	5.39%	4.48%
10 Gas Transmission Stocks ...	4.49	5.23	3.86
10 Gas Distribution Stocks	5.16	5.19	4.74

*Includes 20 gas transmission and distribution stocks included above, plus stocks of 10 integrated gas companies.



earlier. However, since dividend payments had increased 11 per cent, the average yield was slightly higher than a year earlier. The charts on page 512 show the trend of quarterly revenues dur-

ing 1951-52 for the natural gas utilities, and for the entire gas utility industry. Despite the warm winter weather, revenues of natural gas utilities increased 22 per cent in the last quarter of 1952.



FINANCIAL DATA ON ELECTRIC UTILITY STOCKS

1952 Rev. (Mill.)			3/19/53 Price About	Divi- dend Rate	Current Yield	Share Earnings*			Price- Earnings Ratio	Div. Pay- out
						Current Period	% In- crease	12 Mos. Ended		
\$206	S	American Gas & Elec. ...	32	\$1.50#	4.7%	\$2.39	13%	Jan.	13.4	63%
27	O	Arizona Public Service ..	17	.90	5.3	1.40	61	Jan.	12.1	64
6	O	Arkansas Mo. Power ...	20	1.10	5.5	1.51	23	Sept.	13.2	73
23	S	Atlantic City Elec.	27	1.30	4.8	1.82	14	Jan.	14.8	71
5	O	Bangor Hydro-Elec.	28	1.60	5.7	1.87	D3	Dec.	15.0	86
2	O	Beverly G. & E.	52	3.25†	6.3	4.13	31	Dec.'51	12.6	97
3	O	Black Hills P. & L.	22	1.28	5.8	1.86	11	Jan.	11.8	69
79	B	Boston Edison	53	2.80	5.3	3.30	4	Dec.	16.1	85
15	A	California Elec. Pr.	10	.60	6.0	.89	117	Dec.	11.2	67
14	O	Calif. Oregon Pr.	27	1.60	5.9	1.72	18	Jan.	15.7	93
48	S	Carolina P. & L.	42	2.00#	4.8	2.95	15	Feb.	14.2	68
21	S	Cen. Hudson G. & E. ...	13	.70	5.4	.85	37	Dec.	15.3	82
14	O	Central Ill. E. & G.	27	1.30	4.8	2.30	8	Sept.	11.7	57
25	S	Central Ill. Light	42	2.20	5.2	2.93	3	Feb.	14.3	75
33	S	Central Ill. P.S.	21	1.20	5.7	1.55	5	Sept.	13.5	77
8	O	Cent. Louisiana Elec. ...	43	2.00	4.7	3.06	19	Dec.	14.1	65
25	O	Central Maine Power ...	20	1.20	6.0	1.42	D1	Feb.	14.1	85
88	S	Central & S.W.	21	1.00	4.8	1.60	19	Dec.	13.1	63
8	O	Central Vermont P. S. ...	15	.84	5.6	1.05	2	Feb.	14.3	80
83	S	Cincinnati G. & E.	40	2.00#	5.0	2.80	1	Dec.	14.3	71
5	O	Citizens Utilities	12	.40a	6.3a	.85	21	Sept.	14.1	42
87	S	Cleveland Elec. Illum. ...	52	2.60	5.0	3.45	12	Dec.	15.1	75
2	O	Colorado Cent. Power ...	20	1.12	5.6	1.38	11	Sept.	14.5	81
34	S	Columbus & S.O.E.	27	1.40	5.2	2.07	34	Dec.	13.0	68
304	S	Commonwealth Edison ..	37	1.80	4.9	2.25	17	Dec.	16.4	80
7	A	Community Pub. Ser. ...	20	1.00#	5.0	1.69	NC	Nov.	11.8	59
1	O	Concord Electric	34	2.40	7.1	1.89	D25	Dec.	18.0	127
50	O	Connecticut L. & P.	16	.88†	5.5	.96**	D1	Jan.	16.7	92
17	O	Connecticut Power	39	2.25	5.8	2.36	1	Dec.	16.5	95
435	S	Consol. Edison	40	2.20	5.5	2.63	20	Dec.	15.2	84
91	S	Consol. Gas of Balt.	27	1.40	5.2	1.79	10	Dec.	15.1	78
137	S	Consumers Power	38	2.00	5.3	2.66	1	Jan.	14.3	75
53	S	Dayton P. & L.	38	2.00	5.3	2.85	16	Dec.	13.3	70
23	S	Delaware P. & L.	25	1.20	4.8	1.75	4	Dec.	14.3	69

PUBLIC UTILITIES FORTNIGHTLY

1952 Rev. (Mill.)	(Continued)	3/19/53 Price About	Divi- dend Rate	Current Yield	—Share Earnings*—			Price- Earnings- Ratio	Div. Pay- out
					Cur- rent Period	% In- crease	12 Mos. Ended		
6	O Derby G. & E.	23	1.40	6.1	1.52	5	Dec.	15.1	92
173	S Detroit Edison	25	1.40	5.6	1.73	4	Jan.	14.5	81
98	A Duke Power	33	1.50	4.5	2.51	32	Dec.	13.1	60
78	O Duquesne Light	29	1.50	5.2	2.10	9	Dec.	13.8	71
8	O El Paso Electric	24	1.20	5.0	1.95	7	Jan.	12.3	62
9	S Empire Dist. Elec.	26	1.40	5.4	1.87	24	Oct.	13.9	75
4	O Fitchburg G. & E.	52	3.00	5.8	3.63	16	Dec.	14.3	83
28	S Florida Power Corp.	26	1.20	4.6	1.80	75	Dec.	14.4	67
61	S Florida P. & L.	38	1.60	4.2	2.84	14	Dec.	13.4	56
145	S General Pub. Util.	29	1.60	5.5	2.17	26	Dec.	13.4	74
5	O Green Mt. Power	21	1.20	5.7	1.65	D15	Dec.	12.7	73
37	S Gulf States Util.	30	1.20	4.0	1.86	25	Jan.	16.1	65
19	A Hartford E. L.	54	2.75	5.1	2.81	D1	Dec.	19.2	98
4	O Haverhill Electric	36	2.50†	6.9	2.59	D17	Dec.'51	13.9	93
48	S Houston L. & P.	25	1.00	4.0	1.81	28	Jan.	13.8	55
19	S Idaho Power	46	2.00	4.3	2.75	20	Dec.	16.7	73
55	S Illinois Power	41	2.20	5.4	2.89	4	Jan.	14.2	76
33	S Indianapolis P. & L.	41	2.00	4.9	2.97	2	Dec.	13.8	67
16	S Interstate Power	11	.60	5.5	.89	29	Dec.	12.4	67
18	O Iowa Elec. L. & P.	19	1.10	5.8	1.67	11	Jan.	11.4	66
26	S Iowa-Ill. G. & E.	32	1.80	5.6	2.20	4	Dec.	14.5	82
27	S Iowa Power & Light ...	26	1.40	5.4	1.74	5	Dec.	14.9	80
23	O Iowa Pub. Service	24	1.40	5.8	1.60	D1	Jan.	15.0	88
10	O Iowa Southern Util.	21	1.20	5.7	1.62	53	Jan.	13.0	74
41	S Kansas City P. & L.	31	1.60	5.2	2.21	26	Jan.	14.0	72
19	O Kansas Gas & Elec.	37	2.00	5.4	2.89	27	Jan.	12.8	69
32	S Kansas Pr. & Lt.	21	1.12	5.3	1.48	17	Dec.	14.2	76
28	O Kentucky Utilities	19	1.00	5.3	1.60	13	Dec.	11.9	63
6	O Lake Superior D.P.	32	2.00	6.3	2.93	16	Dec.	10.9	68
6	O Lawrence G. & E.	38	2.25†	5.9	2.65	D15	Dec.'51	14.3	85
59	S Long Island Lighting ...	18	.90	5.0	1.15	13	Dec.	15.7	78
36	S Louisville G. & E.	39	1.80	4.6	3.31	5	Dec.	11.8	54
6	O Lowell Elec. Lt.	48	3.35†	7.0	3.70	D7	Dec.'51	13.0	91
8	O Lynn G. & E.	28	1.60	5.7	1.88	21	Dec.	14.9	85
6	O Madison G. & E.	35	1.60	4.6	2.47	7	Dec.'51	14.2	65
3	A Maine Public Service ...	20	1.20	6.0	1.51	9	Dec.	13.2	79
3	O Michigan G. & E.	32	1.35 #	7.2a	2.86	15	Sept.	11.2	47
116	S Middle South Util.	27	1.40	5.2	1.91	16	Jan.	14.1	73
18	S Minnesota P. & L.	39	2.20	5.6	3.32	3	Feb.	11.7	66
2	O Missouri Edison	14	.70	5.0	1.30	21	Dec.	10.8	54
8	A Missouri P.S.	26	1.20	4.6	2.09	34	Dec.	12.4	57
5	O Missouri Utilities	18	1.00	5.6	1.56	3	Dec.	11.5	64
31	S Montana Power	31	1.40	4.5	2.76	6	Jan.	11.2	51
13	A Mountain States Pr. ...	17	.84	4.9	1.14	16	Nov.	14.9	74
105	S New England Elec.	14	.90	6.4	1.15	2	Sept.	12.2	78
36	O New England G. & E. ..	15	1.00	6.7	1.25**	D2	Jan.	12.0	80
39	O New Orleans P.S.	41	2.25	5.5	2.82	2	Dec.	14.5	80
2	O Newport Electric	32	2.00	6.3	3.10	33	Dec.	10.3	65
63	S N. Y. State E. & G.	37	1.90	5.1	2.42	22	Jan.	15.3	79
189	S Niagara Mohawk Power. ...	28	1.60	5.7	1.92	D6	Dec.	14.6	83
89	S North American	23	Stock(b)	—	1.41	15	Sept.	16.3	—
59	O Northern Ind. P.S.	27	1.52	5.6	2.35	6	Jan.	11.5	65
100	S Northern States Pr.	14	.70	5.0	1.02	32	Dec.	13.7	69
8	O Northwestern P.S.	15	.90	6.0	1.36	9	Sept.	11.0	66
101	S Ohio Edison	39	2.20	5.6	2.74	15	Jan.	14.2	80
32	S Oklahoma G. & E.	28	1.50	5.4	2.00	18	Dec.	14.0	75
13	O Otter Tail Power	24	1.50	6.3	2.08	27	Jan.	11.5	72
314	S Pacific G. & E.	39	2.00	5.1	2.31	34	Dec.	16.9	87
22	O Pacific P. & L.	21	1.10	5.2	1.80	26	Dec.	11.7	61
87	S Penn. Power & Light ...	35	1.60	4.6	2.43	4	Jan.	14.4	66
8	A Penn. Water & Power ..	40	2.00	5.0	2.31	D9	Dec.	17.3	87
175	S Philadelphia Elec.	32	1.50	4.7	2.20	8	Dec.	14.5	68
29	O Portland Gen. Elec.	31	1.80	5.8	2.46	7	Jan.	12.6	73

FINANCIAL NEWS AND COMMENT

1952 Rev. (Mill.)	(Continued)	3/19/53 Price About	Div. Rate	Cur- rent Yield	Share Cur. Period	Earnings* % In- crease	12 Mos. Ended	Price- Earnings Ratio	Divi- dend Pay- out
48	S Potomac Elec. Power ...	19	1.00	5.3	1.35	21	Dec.	14.1	74
52	S Pub. Serv. of Colo.	31	1.40	4.5	2.29	9	Dec.	13.5	61
214	S Pub. Serv. E. & G.	27	1.60	5.9	1.92	3	Dec.	14.1	83
54	S Pub. Serv. of Ind.	36	1.80	5.0	2.40	11	Jan.	15.0	75
17	O Public Serv. of N.H. ...	29	1.80	6.2	2.07	24	Jan.	14.0	87
8	O Public Serv. of N.M. ...	11	.56	5.1	.79	8	Dec.	13.9	71
20	O Puget Sound P. & L. ...	27	1.20	4.4	1.50	D7	Dec.	18.0	80
43	S Rochester G. & E.	40	2.24	5.6	3.10	38	Dec.	12.9	72
9	O Rockland L. & P.	12	.60	5.0	.65	5	Dec.	18.5	92
7	S St. Joseph L. & P.	29	1.68	5.8	2.21	12	Dec.	13.1	76
33	O San Diego G. & E.	17	.80	4.7	1.52	27	Jan.	11.2	53
12	S Scranton Electric	17	1.00	5.9	1.15	6	Jan.	14.8	87
6	O Sierra Pacific Pr.	29	1.60	5.5	2.60	52	Jan.	11.2	62
127	S So. Calif. Edison	39	2.00	5.1	3.27	12	Dec.	11.9	61
27	S So. Carolina E. & G. ...	14	.70	5.0	.90	73	Dec.	15.6	78
4	O Southern Colo. Pr.	12	.70	5.8	.93	8	Nov.	12.9	76
164	S Southern Company	16	.80	5.0	1.20	17	Jan.	13.3	67
12	S So. Indiana G. & E.	26	1.50	5.8	2.23	17	Feb.	11.7	67
1	O Southern Utah Power ..	15	1.00	6.7	1.35	4	Dec.'51	11.1	74
2	O Southwestern E. S.	17	.96	5.6	1.50	8	Nov.	11.3	64
27	O Southwestern P.S.	22	1.20	5.5	1.57	19	Jan.	14.0	76
15	A Tampa Electric	46	2.40	5.2	3.34	27	Jan.	13.8	72
94	S Texas Utilities	47	1.88	4.0	3.17	23	Jan.	14.8	59
33	S Toledo Edison	13	.70	5.4	1.06	16	Dec.	12.3	66
8	O Tucson G.E.L.&P.	31	1.60	5.2	2.44	42	Dec.	12.7	66
85	S Union Electric of Mo. ..	24	1.20	5.0	1.16	16	Sept. 20.7	103	
25	O United Illuminating	45	2.40†	5.3	2.73	15	Dec.	16.5	88
2	O Upper Peninsula Pr.	17	1.20	7.1	1.39	—	Nov.	12.2	86
26	S Utah Power & Light ...	34	1.80	5.3	2.54	19	Dec.	13.4	71
77	S Virginia E. & P.	27	1.40	5.2	1.82**	4	Feb.	14.8	77
18	S Washington Water Pr. ..	29	1.50	5.2	1.67	24	Dec.	17.4	90
100	S West Penn Elec.	37	2.20	5.9	3.20	19	Nov.	11.6	69
54	O West Penn Power	41	2.00	4.9	2.39	NC	Oct.	17.2	84
8	O Western Lt. & Tel.	26	1.60	6.2	2.39	12	Nov.	10.9	67
20	O Western Mass. Cos.	33	2.00	6.1	2.29	9	Dec.	14.4	87
79	S Wisconsin Elec. Pr.	28	1.40	5.0	1.93	12	Dec.	14.5	73
26	O Wisconsin P. & L.	22	1.20	5.5	1.63	33	Sept.	13.5	74
27	O Wisconsin Pub. Ser.	19	1.10	5.8	1.36	10	Dec.	14.0	81
Averages				5.4%				13.9	74%

Foreign Companies††

173	S Amer. & For. Power ...	9	\$.60	6.7%	\$1.93	D17%	June	4.7	—
134	A Brazilian Trac. L. & P. ..	10	1.00	10.0	2.47	5	Dec.'51	4.0	40%
15	A Gatineau Power	22	1.20	5.5	1.30	D11	Dec.'51	16.9	92
25	O Mexican L. & P.	4	—	—	.44	193	Dec.'51	9.1	—
8	A Quebec Power	20	1.00	5.0	1.28	10	Dec.	15.6	78
40	A Shawinigan Water & Pr. .	42	1.45†	3.5	1.91	4	Dec.	22.0	76
16	A Winnipeg Electric	46	2.40	5.2	2.26	D7	Dec.'51	20.4	106

B—Boston Exchange. A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. D—Decrease. NC—No comparable figures available. *If additional common shares have been recently offered, earnings are adjusted to give effect to the offering. Percentage change is in the balance available for common stock. Tax savings resulting from accelerated amortization of defense facilities are excluded (when separately reported). †Estimated (rate irregular or includes extras). ††With exception of American & Foreign Power, these stocks are also listed in Canada, and the Canadian prices are here used. (Curb prices are affected by exchange rates, etc.) **Based on average number of shares. a—Also regular annual 3 per cent stock dividend, which is included in the yield. (b)—North American Company distributed one-tenth share of Union Electric of Missouri on January 20th; another one-tenth will be paid about a year later, and a full share in about two years.



What Others Think

How Should Defense Plant "Tax Savings" Be Treated?



HEARINGS last month before the Federal Power Commission on proper accounting for accelerated tax depreciation brought forth varied comment from utility representatives. The hearings were called to determine whether the FPC should adopt any special rule on the accounting or rate regulatory treatment of the so-called "tax savings" resulting from the accelerated tax amortization provision in the Internal Revenue Code. The issue arises from the Federal government's defense industrial expansion program. Under this program, companies are permitted within five years to charge off for income tax purposes all or part of the cost of facilities certified as needed for the defense effort. The normal tax write-off period is around twenty years. FPC records show that, up to February, electric and gas utilities were given rapid write-off certificates of \$1.7 billion on facilities estimated to cost \$3.9 billion. This program was described by a House subcommittee in 1951 as "the biggest bonanza that ever came down the government pike."

But the utilities argued at the hearing that the program merely permits a delay in paying the taxes. They contend it will net them nothing in the long run if Federal taxes remain stable and maintain it was the intent of Congress that the property owners and not the consumers should get the benefits. However, the FPC staff counsel, Francis J. Walsh, took the position that public utilities stand to get a windfall of hundreds of millions of dollars—at the expense of their customers—if they are permitted special treatment of defense tax benefits. Walsh argued that utilities should be allowed to claim for rate-making purposes only normal or true depreciation and actual taxes paid. He stated that if utilities are per-

mitted to treat these tax benefits as expenses in computing their rates, it could result in a loss of between \$654,000,000 and \$1.9 billion to consumers in the form of interest over a 30-year period.

THE electric and gas utilities were by no means agreed on the question of adoption by the FPC of a policy-making rule with respect to treatment of rapid tax amortization for rate-making purposes. Interstate natural gas pipeline companies in general favored a rule which would spell out the commission's position. Electric utilities, however, feared that such a rule would complicate their problems with state regulatory bodies, 17 of which have already issued rulings on accounting or rate making in connection with the tax benefit program. Spokesmen for Rockland Power & Light Company, whose operations are wholly intrastate, thought that no such rule should be adopted for companies like Rockland, since it would inevitably conflict with regulatory treatment prescribed in each state. Conflict and confusion would result. It was pointed out that the Natural Gas Act and Federal Power Act were conceived as supplements to, and not substitutes for, state regulation.

Pacific Power & Light Company, Delaware Power & Light Company, and Philadelphia Electric Company took a similar stand. They held that no rule was necessary and that the FPC should not attempt to impose its views on state commissions. They recommended that FPC continue to consider each case on its merits. FPC staff counsel seemed to agree to this, but insisted that an accounting rule should be adopted which would require utilities to pass on their tax savings to their customers in the form of rate reductions.

WHAT OTHERS THINK

BOTH gas and electric utilities were practically unanimous in their opposition to this proposal. In a preliminary statement filed with the commission, attorneys for Panhandle Eastern Pipe Line Company declared that the primary objective of § 124A of the Internal Revenue Code (providing for rapid tax amortization) was to encourage rapid defense expansion, regardless of postmortization use.

This statute, they contended, applies to all companies, regulated and non-regulated, and both should be treated in the same manner. They said that Congress intended to give holders of certificates of necessity the elective right to recover the entire tax benefit from amortization of their investment in certified facilities during the first five years of use. It was plainly intended that capital invested in property be recovered out of earnings, they held. "Nothing could more directly defeat this purpose than fixing the rates of a regulated company to reflect a reduction in earnings in the exact amount of the intended tax benefit. Yet this would be the precise effect of adherence to the principle of 'taxes paid' in computing the cost of service."

Utility attorneys charged that the adoption of such a principle would be an improper interpretation of the Natural Gas Act and would cause both that act and § 124A of the Internal Revenue Code to operate unequally against regulated companies taking accelerated amortization. They held that the purpose of Congress can be accomplished only through a procedure which reflects an increase in taxes actually paid by a company using the certificate during the amortization period by the amount of the additional tax that would have been paid in the absence of accelerated amortization; and which reflects a decrease in taxes actually paid in the postmortization period by the amount such taxes have been increased by the absence of ordinary depreciation. Panhandle recommended that the commission determine a general policy rule prescribing such a treatment of accelerated amortization for rate-making purposes, but did not feel

that any accounting rule was necessary or appropriate.

THE city of Kansas City, Missouri, supported the opposing argument. Its spokesmen stated that Federal income tax savings in any one year should be reflected in fact in the accounts of public utilities for that year. This would bring about a substantial decrease in Federal income tax expenses of the utility for that year. Excess earnings of public utilities for each of the five years in question would therefore result and should be passed on to the ratepayers in the form of rate reductions. It was pointed out that the Interstate Commerce Commission approved this method last year. A. R. Colbert, chairman of the National Association of Railroad and Utilities Commissioners' committee on accounts and statistics, also recommended such a method at the NARUC's Little Rock, Arkansas, convention in 1951.

The utilities argue that applying Federal income tax savings over a 5-year period distorts earnings and gives an incorrect picture of financial status to the public. They contend that, after tax savings are used in the first five years, additional depreciation occurs which may require rate increase applications. Additional amounts required to pay income taxes, occasioned by the inability of public utilities to deduct depreciation expenses over the normal service life of the plant after the first five years, will be comparatively small each year and should not require any rate increases; but even so, the ratepayers should foot the bill at that time.

Attorneys for Kansas City pointed out that no one knows what taxes will be after five years, or what the earnings of a particular public utility will be, or what rates will be, or whether Federal and state regulatory commissions will change their rules after five years and eliminate the surplus account for the benefit of public utilities. Under the plan recommended by the utilities, they stated, no benefit will accrue to ratepayers. On the other hand, the utilities will have had millions of dollars of cash contributed to

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them by the Federal government, procured interest free. If the national budget is to be balanced, the income tax savings to public utilities must be paid by all taxpayers of the nation, especially by the users of public utility services; yet the ratepayer who makes the contribution gets nothing in return.

The Kansas City attorneys argued further that the method proposed by the utilities violates the intent of Congress, which was to provide Federal income tax savings during the present national high Federal income tax period. They said that by applying the income tax savings now, the public utilities will earn a reasonable rate of return, permitting rate reductions for the consumers, and thus avoiding rate increases during the 5-year period. Under the utility plan, they stated, only the stockholders and security holders benefit.

IN a letter to the commission, Ralph S. Trigg, acting assistant director of production, Office of Defense Management, underlined what seems to be the main point of the tax savings argument.

Trigg noted that the prospects of temporary cash savings from accelerated tax amortization "assist greatly in the unusually heavy financing for the accelerated expansion programs and are often reflected in the terms of the financial commitments undertaken." He added:

It must be apparent that if the administrative practices of a regulatory agency of the government have the effect of nullifying the benefits extended to concerns in the regulated industries under the tax amortization statute, there is a clear danger that the co-operation of those industries in expansion necessary to national defense will not be forthcoming. The investment of private funds in the needed facilities would probably not be made, at least as soon as the interests of national defense require.

"Furthermore," Trigg concluded, "the persuasive authority of a Federal ruling on this point might well extend that concept to state regulation with a consequent increase in the danger."

—F. M.



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—SINCLAIR WEEKS,
Secretary of Commerce.

The March of Events



In General

Offer Irks Canada

A UNITED STATES offer of compensation for tapping the Columbia river system's hydro power just south of the British Columbia border is not regarded as adequate, General A. G. L. McNaughton said recently.

General McNaughton, Canadian co-chairman of the International Joint Commission, told the House of Commons External Affairs Committee that he was hopeful the United States would "come a long, long way" from its present position. He declined to make the United States terms public because of

the early stage of negotiations through the commission, which controls the use of boundary waters.

The proposed United States development would be at Libby, Montana, south of British Columbia on the Kootenai river, part of the Columbia system. It would develop 1,000,000 kilowatts from a dam that would back up a huge lake into British Columbia territory.

General McNaughton said the United States, hungry for hydro power, is willing to pay Canada for the project "in almost any currency except power." On the other hand, British Columbia wanted some of the power.

California

Power Bill Passed

THE state assembly recently added its approval to the senate resolution aimed at persuading Pacific Gas and Electric Company and Southern California Edison Company not to transmit

energy Nevada has contracted for with the U. S. Bureau of Reclamation.

It was argued that California needs all the power it can get and that a shortage already has cost the state its two magnesium plants.

Colorado

Oil and Gas Production Tax Passed

A N oil and gas production tax ranging from 2 per cent for low-producing

wells to a top of 5 per cent, to raise an estimated \$2,000,000 in additional revenue annually, was given final passage by the state legislature recently and sent to the governor for signature.

Connecticut

Senate Confirms Commissioners

THE state senate last month confirmed and sent to the house the

renomination of three incumbent state public utility commissioners—Eugene S. Loughlin, Frederick H. Holbrook, and Henry B. Strong. All are Republicans.

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Two Democratic senators assailed the GOP for naming men to the commission who did not have experience in the public utility field. One of the senators said there should be minority representation on the commission.

Legislature Repeals Act

THE state legislature last month enacted a bill to repeal an act making stockholders of telegraph, telephone, and electric light and power companies liable for the debts of such companies.

District of Columbia

Votes Bill for Area Transit Body

THE Senate Interstate Commerce Committee recently gave unanimous approval to a bill establishing a Washington area commission to regulate public transportation within the city and across state lines.

The measure, authored by Senator Edwin C. Johnson (Democrat, Colorado), calls for appointment by the President of three residents from the Washington metropolitan area to sit as a regulatory body over the area's streetcars, busses, taxicabs, and sight-seeing vehicles.

Such powers would be taken away from the District of Columbia Public Utilities Commission and the Interstate Commerce Commission. Operations entirely within Virginia or Maryland would continue under the control of state regulatory bodies.

Gas Rate Boost Urged

THE staff of the District of Columbia Public Utilities Commission last month recommended that the Washington Gas Light Company be given a \$715,000, or 4 per cent, annual rate increase to meet a new rise in the wholesale price of gas.

This figure, urged by the commission's chief accountant and auditor, was said to be exactly the amount of the wholesale price increase that went into effect last February. It is about 85 per cent of the \$843,000 requested by the company.

Officials said this proposal would mean an increase of 62 cents in the average monthly bills of home owners heating with gas and 14 cents for other domestic customers.

The company was given a rate increase last May, largely because of previous wholesale price costs.

Maine

Commissioner Nominated

SUMNER T. PIKE of Lubec was nominated by Governor Cross last month to be a member of the state public utilities commission. The governor said he intends to designate Pike as chairman when he is confirmed by the executive council and sworn in.

The 61-year-old Pike is taking the

important state post after a career in Federal government, which included membership on the Securities and Exchange Commission and the Atomic Energy Commission.

Cross named him to complete the unexpired term of Frank E. Southard of Augusta, who resigned. The term ends December 29, 1956.

Massachusetts

Governor Seizes Gas Company

GOVERNOR Herter last month seized the Worcester Gas Light Company

when there appeared to be no immediate possibility of a solution in the dispute between 375 employees and management of the company. The company was

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seized by the governor under the Slichter Law, ending the second strike of employees in seventeen days, but he said he planned no further immediate action. It was his hope, he said, that the employees and company officials would reach a solution themselves.

Officials of the United Mine Workers, District 50, had called the strike following failure to reach agreement under the direction of a moderator.

Company management was reported willing to arbitrate only under a Slichter Law clause.

North Carolina

Rate Base Change Sought

IDENTICAL bills introduced in both branches of the state legislature last month would establish the base used in determining public utility rates as the original cost of the property less allowances for depreciation or obsolescence, rather than the present procedure of basing rates on the reproduction cost of the utility's property.

The proposed legislation would direct the state utilities commission to fix rates so the utility could "by economical and efficient management of its operation . . . earn from such services a fair return upon its rate base so determined."

A "fair return" would be interpreted as an amount sufficient to cover depreciation, taxes, interest on indebtedness, operating expenditures, dividends on preferred stock, "reasonable" dividends on common stock, and "a sufficient addition to surplus to enable such common carrier or utility to attract upon reasonable terms such additional capital as it may require in order to render adequate service."

One of the sponsors of the new legislation said the present state statute was adopted in 1899 and is an almost exact replica of a rule which was abandoned by the U. S. Supreme Court about fifteen years ago.

Pennsylvania

Directed to Refund Excess Rates

THE state public utility commission recently affirmed a 1951 order which cut a Duquesne Light Company annual rate increase by \$4,163,688, and again directed the utility to make refunds to 398,000 consumers who paid the excessive charges for ten months.

The company was ordered to submit by June 30th a breakdown of the refunds, estimated at \$3,400,000, showing the

exact amount due each customer between January 10th and October 21, 1951.

The utility raised its rates by \$7,720,612 on January 20, 1951, but cut the increase to \$3,556,924 the following October 21st as directed by the commission. Rates reflecting the cut are now in effect, and the company has proposed a new \$4,787,000 increase which the commission suspended for six months until next September 1st, pending investigation and public hearings.

Virginia

Seeks Gas Rate Hike

THE Virginia Electric & Power Company last month asked for an increase in rates to its natural gas customers in the Hampton Roads area. The state corporation commission recently

set a public hearing in the case for April 21st at Richmond. Vepco is asking for permission to raise its minimum charge from \$1 to \$1.50 and other increases to raise its net return on investment from the less than 3 per cent it reported for last year.



Progress of Regulation

FPC Jurisdiction to License Private Construction of Power Project at Roanoke Rapids Upheld

CONGRESSIONAL approval of a comprehensive plan for development of the Roanoke river basin containing express authorization of certain projects did not, according to the Supreme Court, remove from the licensing jurisdiction of the Federal Power Commission a power site at Roanoke Rapids. The effect of this decision is to sustain the order of the commission in (1951) 87 PUR NS 469 granting a power project license to Virginia Electric & Power Company. The order had been affirmed by the United States Court of Appeals for the Fourth Circuit in (1951) 91 PUR NS 366.

The Secretary of the Interior and the Virginia REA Association had challenged the authority of the Federal Power Commission to grant the license. They claimed that Congress, by approving a comprehensive plan set out in the Flood Control Act of 1944, had withdrawn all eleven sites proposed for development in the plan, including Roanoke Rapids, from the licensing jurisdiction of the commission and had reserved them for public construction.

Justice Frankfurter, delivering the opinion of the Supreme Court, noted that Congress had approved the general plan and had authorized construction of Buggs Island and Philpott reservoirs. The opponents of the project asked the court to read the word "approved" as a reservation of the site for public construction and a withdrawal of the site from licensing authority. But he replied:

Read together with other legislative action concerning water resources and

with the history of Federal activity in that regard, congressional "approval" without more cannot be taken, we think, to indicate in this case more than a legislative finding that the proposed projects, no matter by whom they may be built, are desirable and consistent with congressional standards for the ordered development of the nation's water resources. Such a finding has meaning in conveying the congressional purpose and expressing a congressional attitude. Concretely, it means that Congress has adopted a basic policy for the systematic development of a river basin.

Congress, the court continued, did not withdraw as to the whole river basin its general grant of continuing authority to the Federal Power Commission to act as the responsible agent in exercising the licensing power of Congress. Moreover, it was said, a principal responsibility of the commission has always been that of determining whether private construction is consistent with the public interest. It was not for the court to intimate a preference between private or public construction, nor was the court asked to review the propriety of the commission's determination that private construction was in harmony with the comprehensive plan.

The court was simply asked to decide whether Congress had withdrawn from the commission the power to decide this question.

The court found no merit in a contention that the commission was required by

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§ 7(b) of the Federal Power Act to recommend public construction of the project. A report of the Corps of Engineers did not clearly recommend that all projects be constructed by the United States and the commission's concurrence in that report, said the court, could not provide a basis for invoking the provisions of § 7(b). That section is a direction to the commission not to approve a private application for a project affecting any development of water resources which, in the judgment of the commis-

sion, should be undertaken by the United States itself. Primary responsibility for enforcement of provisions of § 7(b) must remain with the commission.

Justice Douglas, with the concurrence of the Chief Justice and Justice Black, dissented. He said that Roanoke Rapids is a power site belonging to the Federal government and now surrendered to private power interests under circumstances that demand a dissent. *United States v. Federal Power Commission*, Nos. 28, 29, March 16, 1953.



Discriminatory Aspects of Gradual Conversion to Metered Water Service Considered

COMPLAINTS by water users against a utility's plan of gradually converting its entire system to metered service were partially sustained by the New York commission. The company had divided its territory geographically and had commenced installing meters in one billing district. It planned to install about 1,000 meters per year until it had converted every consumer from flat rate to metered service. All new consumers were to receive metered service.

The company explained its plan by saying:

... that it would be impossible to complete conversion of all unmetered service in any short period of time, and its intention was to select relatively heavy consumption areas where installation of additional water supply facilities would be necessary to meet demands under unmetered conditions.

The consumers' complaints, according to the commission, were founded "either in the fear that charges under metered service would be higher than flat rate service or in the belief that partial or progressive conversion of a limited portion of the territory is not fair to the consumers therein as compared with the great majority of consumers in the remaining areas."

The commission, after directing a reduction in the metered rate so as to make the annual charges for average

consumption paid by a metered user substantially the same as the charges for flat rate users of a similar amount of water, answered the consumers' complaints. As to the fear of excessive costs under metered rates, the commission pointed out that while the complaint was well founded under existing rates, the charges would not be excessive under the rates approved in this proceeding unless the consumer used unusually large quantities of water and was "one of the very ones who are taking advantage of the flat rate service as compared with and to the possible detriment of their more conservative neighbors."

On the claim that the gradual conversion on a geographical basis was discriminatory, the commission said:

On the other hand, there is no doubt but that partial or piecemeal conversion has the objectionable features of forcing delineations of the territory with differing treatment of consumers depending upon the section in which they may happen to reside. Part of this difficulty can and will be overcome by providing in the tariff that any residential customer desiring metered service may receive such service under the appropriate tariff provisions.

General opposition to the installation of meters on the ground that the purpose of meters is to conserve water and that since there was no need for conservation

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there was no need for metering, was dispelled by the commission with this comment:

If we remember correctly, the same argument against conservation was made in respect to the buffalo and the passenger pigeon. We know that during the current season the water situation was such that the company was forced to ask the customers not to sprinkle, and we know that local authorities of Long Island are engaged in a program of returning water to the water table to main it. We think

that every possible effort should be made to conserve the water resources of Long Island . . .

The commission indicated that the present plan of converting one geographical unit at a time and requiring new customers to accept metered service was not discriminatory if this were part of a comprehensive program to effect system-wide metering but would be discriminatory, particularly to new users, in the absence of such a program. *Re Jamaica Water Supply Co. Case Nos. 15172, 15547, January 19, 1953.*



Working Capital Considered in Passing on Bond Issue to Discharge Notes

THE New York commission authorized a gas and electric corporation to issue first mortgage bonds to discharge outstanding promissory notes, the funds from which were used for construction purposes. The issuance of the bonds would increase the ratio of bonds to total capitalization to slightly over 50 per cent. The corporation could issue preferred and common stock at a future date.

The corporation was authorized to sell the bonds on a privately negotiated basis rather than by a public offering with competitive bidding. Testimony adequately supported the claim that the terms of the proposed private sale were the best procurable in the present market for the type of securities involved. The 3.30 per cent yield to the purchasers of the proposed bonds compared most favorably with current market yields of 3.25 per cent to 3.41 per cent for contemporary securities having an A rating issued by other utilities in the past few months.

The company proposed to use the proceeds not only to discharge outstanding promissory notes but also to reimburse the treasury for money expended for capital additions or for increased working capital requirements. The record was not conclusive as to the propriety of the company's claims as to each working capital item, although evidence tended to

support the policy adopted by the company of maintaining reserve supplies of critical materials at its gas and electric generating plants.

For example, the claimed investment for a reserve coal pile, which was equivalent to the fuel requirements at its steam plant for a 90-day period, priced at the average cost of coal to the corporation, was not deemed excessive, particularly in view of the past unstable conditions in the fuel industry and the problem of transporting the commodity.

A contention that costs connected with the issuance of capital stocks should be considered as funds invested in working capital requirements was, however, considered of doubtful propriety. The claim was presumably based on the theory that, since the corporation was required to use moneys from its treasury, rather than proceeds from stock issues, for the payment of capital stock expenses, the amount of its working capital was reduced.

The commission admitted that it was necessary for the corporation to obtain the funds for such expenditures from some source, but no proof was offered that their payment from current funds affected the normal working capital requirements. Nor was any proof offered that the funds used for this purpose were not obtained from surplus earnings or

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from some source other than those providing funds for construction purposes, such as depreciation accruals and short-term loans. The commission said that it should not be inferred, however, that the company was not entitled to request authority to reimburse its treasury for funds expended in connection with capital stock expenses. It could do so if the requirements of the statute were complied with in all respects.

In discussing the company's request for reimbursement of funds utilized in paying capital stock expenses, the commission pointed out that it has in the past authorized the use of proceeds from the issuance of stock, bonds, and long-term notes for working capital purposes, although it has indicated that it would not permit the financing of capital stock expenses with debt securities. On the other hand, it has authorized the pay-

ment of capital stock expenses out of proceeds from the specific stock involved. In such cases it has insisted that gross proceeds, rather than net, be used in measuring the amount of reimbursable margin or capitalizable expenditures forming the basis for the issuance of additional securities.

Other commissions have permitted the capitalization of funds required for working capital purposes, but have directed that such funds be secured from stock issues, not bonds. The commission believed that the company should be given an opportunity to present evidence in respect to the amount of its capitalizable expenditures, since a definite determination should be made as to the amount of such expenditures in passing upon any subsequent application for the issuance of securities. *Re Central Hudson Gas & E. Corp. Case 15986, December 9, 1952.*



Railroad Passenger Deficit Consideration by Interstate Commerce Commission in Intrastate Freight Proceeding

THE United States Supreme Court dismissed the contentions of the Florida commission that the Interstate Commerce Commission, in prescribing intrastate freight rates, should not consider passenger deficits and that the commission's findings were not sufficient to uphold the rates prescribed.

After reviewing the changing attitude of the Interstate Commerce Commission concerning the rôle of passenger deficits and freight rates, the court said that there was little doubt that the commission could consider such deficits in prescribing interstate freight rates to meet over-all revenue needs. The problem was whether interstate or intrastate passenger deficits could be given weight in prescribing intrastate freight rates.

It was held that some considerations properly given weight by the commission in prescribing interstate freight rates would not be applicable equally to intrastate traffic, but that would not be a defense where, as here, there was no showing that the character of operating conditions in Florida intrastate traffic

differed substantially from that of interstate passenger operations in the southern territory generally. Since the same economic principles applied, held the court, interstate or intrastate passenger deficits were properly given weight.

The court further held that the findings of the commission were sufficient because they showed that maintenance of existing intrastate rates would cause unjust discrimination against interstate commerce. The intrastate rates approved would not exceed a just and reasonable level. Existing intrastate rates were abnormally low and were not contributing their fair share to the carrier's revenues, thereby casting an undue burden upon interstate commerce, and the increased rates would constitute no more than a fair proportion of the carrier's total income. It was further held that the commission's jurisdiction over intrastate rates was not limited to cases where those rates were confiscatory, but that it was sufficient that the existing intrastate rates caused unjust discrimination against interstate or foreign commerce.

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In a dissenting opinion it was said that the Interstate Commerce Commission may prescribe intrastate freight rates where the existing rates favored intrastate over interstate commerce or because they failed to yield their fair share of the carrier's revenue, but that such rates could not be prescribed because the

carrier's interstate passenger operations were losing money. There can be no basis for a finding of discrimination, it was said, because there is no relationship between intrastate freight rates and interstate passenger operations. *King et al. v. United States et al. December 22, 1952.*



Suspension of Needed Rate Increase until Service Is Improved Amounts to Confiscation

THE Ohio Supreme Court reversed a commission order authorizing increased telephone rates upon the condition that the company improve its facilities and service. The court said that after a finding had been made that existing rates were inadequate, the action of the commission in conditioning the new rates on service improvement amounted to confiscation.

The court commented further on this question in these words:

A utility to survive must receive a fair return on its property. Otherwise capital will not be attracted to furnish the funds for the new equipment needed to meet the demands of increased population and the consequential necessity for increased service. The commission's order as made has the effect of creating serious difficulties for the company. A situation is present where the company needs an increase in rates to attract capital to buy new equipment and to meet increased demands, and the commission says, in effect, "we will give you the new rates to attract the new capital to purchase new equip-

ment when you show that you have installed the new equipment." Adoption of such an attitude would hamstring the utility.

A condition in the commission order that the company obtain commission approval before declaring and paying dividends was carefully considered. The court ruled that where a utility pays dividends out of earned surplus, the commission lacks the power to interfere with internal policies and management by requiring the company to obtain commission approval before declaring and paying dividends.

A complaint by the company that the commission erred in conducting a rehearing on its rate application in the city in which it operated instead of at the state capital was overruled by the court. The commission, the court said, has broad discretionary powers as to both the conduct and the place of its hearings. The decision to hear the matter in the locality most concerned with the subject matter was within the commission's discretion. *Elyria Teleph. Co. v. Public Utilities Commission, 110 NE2d 59.*



Year-end Rate Base Improper for Expanding Plant

THE New Hampshire Supreme Court held that the commission erred when it used a year-end rather than an average year rate base in authorizing an electric rate increase for an expanding plant. The allowed return of 5.65 per cent was upheld, however, in view of findings that the cost of money to the company was

5.45 per cent at the end of the year.

The court said that if a year-end rate base is not related to year-end income in an expanding plant, recognition is not given to growth, increased productivity, and earnings for a full year. The determination of additional revenue to produce a reasonable return in such an ex-

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panding utility could not fairly be calculated by using a year-end rate base and average earnings from the preceding year. The rate base should relate to the period for which earnings are being tested.

The difference between the year-end and the average rate base might be inferred to be an amount allowed by the commission for attrition. While attrition is a factor for which allowance may be made, the court concluded that there was no justification for such an inference in this case. It involved considerable conjecture in view of the absence of express commission findings. It was equally plausible that attrition was considered and allowed in the rate of return, along with embedded costs, and the necessity to maintain credit and to attract capital. If so, the allowance of this amount might result in a double recognition of attrition in both the rate base and the rate of return, producing a larger return than was intended.

The company argued that the commission acted improperly in refusing to accept reproduction cost evidence. The court pointed out that in the absence of a statute requiring otherwise, such evidence may be disregarded if the com-

mission thinks it is not entitled to any weight. The dominant standard of the state statutes is that rates shall be just and reasonable. This, the court said, allows the commission to consider or reject evidence of reproduction cost. If the commission determines a just and reasonable rate base and a just and reasonable rate of return, the company cannot complain because the method adopted does not give weight to reproduction cost.

In discussing the question of accelerated amortization under the Federal Defense Production Act, the court said that whether income tax savings resulting from accelerated amortization authorized under the act should be treated as true net income or placed in a special account against future increased tax liability is an accounting problem. The company had not, at the time of the rate proceeding, voted to accept and exercise certificates authorizing accelerated amortization.

The state commission may properly retain jurisdiction of the matter to issue such orders as it considers necessary when and if the company later decides to accept the certificates, according to the court. *Chicopee Mfg. Co. et al. v. Public Service Co.* 93 A2d 820.



Other Important Rulings

THE United States District Court for Northern Texas, in dismissing a carrier's suit for an injunction against an Interstate Commerce Commission order awarding certificates to competitors, ruled that an attack by the carrier on the manner in which the examiner conducted the hearings was not entitled to any consideration inasmuch as the carrier had indicated its complete satisfaction with the examiner, whose decision was in its favor, and actually complimented the examiner because of his accuracy and fairness. *Wales et al. v. United States et al.* 108 F Supp 928.

The United States District Court for Western Pennsylvania refused to entertain a proceeding to enjoin a state com-

mission from prosecuting a proceeding against a carrier based on violations of the carrier's operating authority where the state court had obtained jurisdiction over the carrier prior to the institution of the Federal court proceedings since "as a matter of comity as well as law . . . (the carrier) should exhaust its remedies in the state courts before resort is had to a Federal court." *Atlantic Freight Lines, Inc. v. Pennsylvania Pub. Utility Commission*, 109 F Supp 385.

In an electric rate proceeding described as "a case history of the serious impact of inflationary costs on a company faced with a relatively inelastic demand for service in some categories and a shortage of supply for those categories

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of service whose demands are expanding rapidly," the Wisconsin commission found that a 6.2 per cent return was reasonable. *Milwaukee v. Milwaukee Gas Light Co.* 2-U-3609, February 16, 1953.

The Civil Aeronautics Board, in passing on rates for an air carrier, indicated that it proceeds on the same principles as other regulating bodies and that it was not improper for it to include a return element in fixing a "need" mail rate under § 406 of the Civil Aeronautics Act. *Re Northwest Airlines*, Docket No. 2539 et al. January 13, 1953.

The Civil Aeronautics Board ruled that an air carrier tariff barring claims for injury to or death of any passenger,

unless written notice is presented to the carrier within thirty days of the event giving rise to the claim, was unjust and unreasonable. *Re Continental Charters*, Docket No. 5573, January 16, 1953.

A United States District Court dismissed an action by a motor carrier to recover against the Federal government for shipping services rendered the government during World War II on two grounds: (1) The 6-year statute of limitations had run against the claim; (2) the shipment could have been considered as falling within either of two classifications and the government satisfied its obligation in full when it paid the lower of the two possible rates. *Hughes Transp. Inc. v. United States*, 109 F Supp 373.

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Public Utilities Reports (New Series) are published in five bound volumes a year, with the PUR Annual (Index). These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual (Index) \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

NEW YORK PUBLIC SERVICE COMMISSION

Re Niagara Mohawk Power Corporation

Case 16077
February 10, 1953

APPPLICATION by electric company for permission to exercise franchise in area completely surrounded by its existing service area; granted.

Certificates of convenience and necessity, § 76 — Electric service — Economic feasibility of service.

1. The question of the economic feasibility of utility service in a specific locality, considered by itself, should not be controlling in determining whether or not a public utility should be authorized to exercise a franchise in the area, p. 65.

Service, § 148 — Duty to serve — Economic feasibility.

2. Prospective utility customers should not be given or refused service solely because of the judgment of utility officials as to whether the prospective business will or will not, judged by itself, be profitable, since any utility has the responsibility of serving customers in its own territory or territory which logically belongs to it, p. 65.

APPEARANCES: Harry G. Slater, Assistant General Counsel, Syracuse, for Niagara Mohawk Power Corporation; Charles S. Tracy, County Attorney, Speculator, for the town of Morehouse.

EDDY, Commissioner: This is an application for permission to exercise an electric franchise in the town of Morehouse, Hamilton county, granted November 12, 1952.

At the present time the town of Morehouse is the only portion of the county of Hamilton in which there is not an electric franchise. The territory is entirely surrounded by territory served by Niagara Mohawk, and it would be far from economically feasible for any other company to serve the territory. The town had a total per-

manent population in 1950 of 104 people, but it has a much larger population during the vacation season.

The company presently has applications from 105 prospective customers as well as an expected street lighting contract from which it would estimate revenues for the first year of approximately \$5,000.

To serve these customers it will be necessary for the company to erect a distribution system estimated to cost about \$60,000, and, in addition, strengthen its existing feeders to the boundary of the town. Much of the latter work is desirable to give existing customers good service.

[1, 2] Considering the investment and maintenance it may be argued, at least in the initial period, that the

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exercise of this franchise will not result in a productive source of revenue. However, the availability of electricity will unquestionably aid in the development of the area. The question, however, of the economic feasibility of service in a specific locality considered by itself should not be controlling. The territory is entirely surrounded by the territory of Niagara Mohawk. There is no other company which can serve the area. At the hearing a large delegation of representatives of the town appeared and indicated its needs.

We think that any electric utility has the responsibility of serving customers in its own territory or territory which logically belongs to it, as in the present case where the town is entirely surrounded by the franchise territory of

Niagara Mohawk. Prospective utility customers should not be given or refused service solely because of the judgment of utility officials as to whether prospective utility business will or will not, judged by itself, be profitable. This state is rightfully proud of a policy which was first adopted by the legislature in 1930 of aiding rural areas in obtaining electricity from privately owned utilities.

The approval of this franchise is in the public interest.

Conclusion:

An appropriate order should be entered approving the exercise of the franchise granted by the town of Morehouse, Hamilton county.

NEW YORK PUBLIC SERVICE COMMISSION

Re Niagara Mohawk Power Corporation

Case 16064

February 10, 1953

APPPLICATION for authority to exercise electric franchise upon acquisition of works and system of another electric company; granted.

Certificates of convenience and necessity, § 89 — Electric company — Rate factor.

An electric company which had acquired the works and system of another electric company serving a village was authorized to exercise a franchise in that village where the operation would result in a material reduction in electric rates.

APPEARANCE: Harry G. Slater, Assistant General Counsel, Syracuse, for Niagara Mohawk Power Corporation.

EDDY, Commissioner: This is a petition for permission to exercise an

electric franchise granted by the village of Edwards, St. Lawrence county, on December 2, 1952. Petitioner is presently furnishing electricity in the village under a franchise granted Decem-

RE NIAGARA MOHAWK POWER CORP.

ber 8, 1909, for a period of fifty years, which franchise was acquired by petitioner on October 22, 1952, under authority of an order of this Commission dated September 22, 1952, in Case 15908 in a proceeding which sought approval of the acquisition of the works and system of the Edwards Electric Light and Power Company.

The company presently serves some 217 customers in the village. It has operated the system since its purchase for only two months during which time the sales amounted to approximately 53,000 kilowatt hours producing revenue of \$1,463.77.

The new franchise is in the company's standard form and is perpetual. The company agrees, if the exercise of

this franchise is approved, to surrender its existing franchise which expires in 1959.

Discussion:

The company was authorized to take over the territory covered by the new franchise by a recent order of this Commission. Taking over the territory resulted in a material reduction of electric rates. Approval of the new franchise is in the public interest.

Conclusion:

An order should be entered approving the exercise of the franchise granted December 2, 1952, conditioned upon the surrender of the present existing franchise.

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Re Arkansas Louisiana Gas Company

Docket No. U-443
November 17, 1952

APPPLICATION by gas company for authority to increase rates to large industrial customers; modified rate increase and reparation ordered.

Valuation, § 25 — Rate base — Date of determination.

1. Average figures during the year should be used in the determination of a rate base and not the year-end figures, p. 71.

Valuation, § 68 — Unamortized difference between purchase price and original cost of property.

2. A utility may include in its rate base the amount remaining in Account 100.5, representing the difference between the price paid for utility property and the original cost to the party first devoting the property to public use, but the amount remaining in this account should be reduced by the cumulative deduction representing the amortization of this amount which has been charged to expenses through preceding years, p. 71.

Valuation, § 224 — Construction work in progress — Inclusion in rate base.

3. Physical properties which have been under construction and which are

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actually placed in service prior to the end of the year should be included in the rate base, p. 72.

Valuation, § 373 — Nonproductive gas leaseholds.

4. Nonproducing gas leaseholds are properly includible in a rate base where it appears that, to assure an adequate gas supply, the company is required continuously to explore and develop new leases and to acquire additional reserves to protect the future needs of its customers, p. 72.

Valuation, § 299.1 — Working capital allowance — Tax accruals — Burden of proof.

5. No allowance should be made for working capital when testimony as to the method used in arriving at cash working capital is conflicting and the utility fails to show that income taxes collected from customers are not sufficient for working capital needs, p. 72.

Valuation, § 104 — Rate base — Adjustment to depreciation reserve — Fully depreciated abandoned property.

6. The depreciation reserve account of a gas utility should be reduced by the amount at which an abandoned compressor station, which has been fully depreciated, is included in the depreciation reserve account, so as to effect an increase in the rate base by such amount, p. 73.

Valuation, § 234 — Property not used for general service — Gas facilities used for sales to other utilities.

7. Gas producing properties were found to be improperly classified as non-utility property where the gas produced by these properties was the same kind as that used in the company's admitted utility operations and where it appeared that the fields were purchased and developed as a reserve for future utility business; but the results of these operations were not properly classifiable to the company's revenues and expenses applicable to large industrial customers, where the sales from the gas fields in question were all sales to other utilities and were not sales to ultimate consumers, p. 73.

Revenues, § 11 — Utility or nonutility operation.

8. The net revenues from gas properties used for sales to other utilities were excluded from consideration in a rate proceeding for the purpose of determining proper rates for industrial customers, even though properties were utility in nature, because of the fact that the sales were really not sales to ultimate consumers but were sales for resale, p. 73.

Apportionment, § 4.1 — Natural gas property — Expenses.

9. In attempting to arrive at a proper rate base for the industrial customers of a natural gas utility, it is necessary to arrive at some method of allocation to determine what portion of the company's total property is diverted to the use of these customers and what portion of its expenses is associated with service to them, p. 75.

Apportionment, § 4.1 — Gas plant and expenses — Allocation to industrial customers.

10. A method of allocation of the plant and expenses of a gas utility between large industrial customers and other customers, under which transmission costs were distributed to customer groups on the basis of use of pipeline capacity during peak periods, and under which production and purchased gas costs were distributed on the basis of annual volume delivery, was approved notwithstanding the fact that service to industrial customers was interruptible and could be discontinued if the needs of other customers so

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required, because of which characteristic customers were required to maintain expensive standby equipment, p. 75.

Revenues, § 7 — Byproduct profits of affiliate.

11. Customers of a gas company are entitled to credit for the profits realized by a wholly owned subsidiary of the holding company that owns 100 per cent of the stock of the gas company when such profits are from the sale of byproducts arising solely from admittedly utility production, p. 76.

Return, § 101 — Natural gas — Industrial service.

12. A return of 6 per cent on industrial service plant was found to be adequate for a natural gas utility, p. 77.

Discrimination, § 109 — Gas rate increase — Application to only portion of industrial customers — Contracts.

13. A gas company would not be justified under the law in making its industrial rate schedule applicable to only part of the customers in that category and at the same time withholding its application to others because of contract commitments, p. 77.

Return, § 72 — Gas — Fair return on industrial service.

14. The issue in a proceeding in which a natural gas utility seeks a higher rate for service to industrial customers is not whether the company is earning a fair return on its properties, but specifically whether it is doing so on that portion devoted to service to industrial customers, p. 78.

Valuation, § 250 — Rate base — Customer contributions in aid of construction.

Statement that contributions by customers are not properly includible in a utility rate base, p. 71.

Valuation, § 299.1 — Working capital allowance — Income taxes as an offset.

Statement that there is an increasing tendency in utility rate cases to hold that accruals for income and other taxes which are paid by customers considerably in advance of the time for tax payments obviate the need for making a separate allowance for working in rate proceedings, p. 72.

By the COMMISSION: Arkansas Louisiana Gas Company, herein called "applicant," is a public utility engaged in the production, transmission, and distribution of natural gas in Northern Louisiana, East Texas, and Arkansas.

Applicant's utility customers are divided into three general classifications under its rates schedules as filed with this Commission: domestic, commercial, and industrial. The availability clauses group customers on the basis of use of gas. Industrial customers are those consuming gas under

boilers, in kilns, and in manufacturing and processing operations.

Classified by relative consumption the customers fall into two groups: (1) Domestic, commercial, and small industrial, and (2) 3-B type, large industrial customers, herein called "3-B." During 1950 and 1951 the 3-B customers used slightly more than one-half of the total system gas deliveries.

3-B consumers are those industrial customers whose use of gas is of a sufficiently uniform character and sufficiently large volume so that they will

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benefit dollar-wise by taking gas under the 3-B schedule. Each industrial customer is free to choose the published industrial rate which best fits its conditions. Among the 3-B customers are the oil industries, brick companies, bauxite, aluminum, and other mining companies, creosote companies, furniture companies manufacturing furniture, and asphalt companies. The company has forty-two 3-B customers, two of which are located in Louisiana, three in Texas, and thirty-seven in Arkansas. Applicant proposes to make uniform rates in the three states, with no distinctions or differentials as between the 3-B customers in Arkansas, Louisiana, or Texas. Because of their large consumption, these customers require special attention and service not needed by smaller consumers.

Gas is delivered from the main transmission lines to the town border meter stations of each community served by the company, through which meter station the gas flows downstream into the company-owned City Plant Distribution facilities. Fifteen of the 3-B customers are served from city plant facilities and twenty-seven receive gas direct from the main pipelines of the company. These subgroups are sometimes referred to in the record as "Distribution System and Main-line" customers, although for purposes of this opinion there are no distinctions between those subgroups.

Prior to this proceeding, this Commission had not taken jurisdiction over the main-line customers.

On April 14, 1950, applicant filed a revised 3-B rate schedule with the Commission. All consumers concerned were duly notified, and twelve

customers protested by filing complaints. In its order dated May 10, 1950, the Commission suspended the rate schedules which were then placed into effect in June, 1950, by the posting of a bond by applicant as provided by law. This new schedule filed in 1950 increased the rates of protestants. As of November 12, 1951, the new 3-B schedule was revised by an additional increase of 2 cents per thousand cubic feet, after applicant followed the statutory procedure of giving notice and posting an additional bond.

Under these two rate increases in 1950 and 1951 protestants have been increased from a low of $\frac{1}{8}$ cents per thousand cubic feet to a high of 12.4 cents per thousand cubic feet, the most of the protestants being increased between 5 cents and 7 cents.

All sums in excess of what each of the affected customers would have paid under the 3-B rate schedule prior to 1950 have been segregated by applicant and kept in a contingent reserve account per orders of this Commission.

The staff of this Commission examined the books and records of applicant in its principal office at Shreveport, Louisiana, and applicant has complied with all requests for information made by the staff and by complainants.

Hearings were held on October 2 and 3, 1951, April 8 and 9, 1952, and May 27 and 28, 1952. The case has been fully developed and has been submitted to the Commission upon briefs of respective counsel.

This Commission has carefully reviewed the entire and voluminous records, the pleadings, and exhibits, and has studied the briefs filed by applicant and by certain private customers, herein sometimes called "protestants,"

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and the brief of the Secretary of the Army on behalf of the United States, represented by the Judge Advocate General, hereinafter called the "Government."

In their briefs the parties raised certain specific issues, all of which will be discussed subsequently under appropriate headings. Essentially all issues presented for our determination fall into one category: Are the rates incorporated in the 3-B schedules effective June, 1950, and November 12, 1951, just, reasonable, and sufficient, and are the provisions of those schedules legal and equitable?

The Commission finds:

Jurisdiction

The Commission has jurisdiction over applicant and all 3-B customers, including the ones served from the distribution system, as well as from the main transmission lines of applicant, and including the installations owned and operated by the United States at the Pine Bluff Arsenal and the Naval Ammunition Depot near Camden. The Government has appeared in this proceeding, filed pleadings and briefs, participated in the hearings, and has submitted to the jurisdiction of this Commission.

The Rate Base

Protestants contest several items of the rate base claimed by applicant, which will now be discussed.

Contributions in Aid of Construction. Applicant's over-all rate base includes contributions to construction made by its customers which were contributed by the customers in connection with the construction of certain property extensions. Applicant's ex-

hibits reflect an item of \$667,390 for such contributions at the end of 1950, and \$718,470 at the end of 1951. Protestants contend that contributions by customers are not properly includible in a utility rate base. We think this contention is correct. However, the record reflects that these contributions are almost 100 per cent applicable to distribution facilities and would have a negligible influence in the 3-B rate base. Therefore, we think this issue may be disregarded.

[1] *Average Property during Year Instead of Year-end Figures.* In determining the rate base for each year, applicant used year-end figures, instead of average plant investment during the year. We agree with protestants that average figures during the year should be used in the determination of the rate base and results for 1950, 1951, and 1952.

[2] *100.5.* In 1950, in pursuance to orders of the Federal Power Commission, applicant wrote off of its books an amount of approximately \$5,000,000, which had been found to be properly classifiable in Account 100.5. The amounts in this account represent the difference between the price paid by applicant and the original cost to the party first devoting the property to public use. The amount in 100.5 was restored to its over-all rate base by applicant, for the purpose of this hearing, and the full amount was maintained undiminished for all the years involved.

However, applicant included in its expenses for each year one-fifteenth of the total amount in Account 100.5 under the theory that it has the privilege of amortizing the amount in this account over a 15-year period.

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Since the amounts in 100.5 represent arms'-length cost, this Commission has followed the policy of allowing utility companies to earn a return on that portion of such investment which has not been recouped through expenses. Re Arkansas Power & Light Co. (1944) 55 PUR NS 129. We adhere to that ruling in this case. However, as protestants suggest, the amount remaining in the account for each year should be reduced by the cumulative deduction which has been charged to expenses through the preceding years.

[3] *Construction Work in Progress—Account 100.3.* Applicant included in its rate base for each year the amount which was at that time in Account 100.3. The testimony on the part of applicant indicates that the physical properties represented by those amounts had been placed into service prior to the end of each year, and that the amount in Account 100.3 had not been transferred to Account 100.1, Gas Plant in Service, due to delays incident to assembling, recording, auditing, and transferring the balances on the work orders.

Protestants argue that these amounts should be eliminated because the record shows that applicant capitalizes interest during construction. However, the record also discloses that the applicant does not capitalize such interest after the property goes into service and the interest so comprised is credited in the income account.

It is our view that where physical properties are actually placed in service prior to the end of the year, the amounts in Account 100.3 representing such properties should be included in the rate base at the end of such year. Furthermore, in Re Arkansas Power

& Light Co. *supra*, Account 100, which includes Sub-Accounts 100.3 and 100.4, was included in determining the rate base of that company's electric properties, and we believe it is proper to do so here.

[4] *Gas Plant Held for Future Use—Account 100.4.* The amounts in this account represent principally non-producing leaseholds. We find from the testimony that to assure an adequate gas supply, applicant must continuously acquire, explore, and develop new leases, and that the interest of its utility customers requires that it attempt to acquire additional reserves to protect the future needs of its customers. We find, therefore, the amount in this account is properly includible in applicant's rate base.

[5] *Working Capital.* Applicant has included for each year the amount of \$2,600,000 for working capital. This is made up of two amounts, one-half for cash working capital, and the remaining one-half to include an allowance for materials and supplies.

As to the amount of \$1,300,000 for cash working capital, the record indicates that the calculation used by applicant would not produce \$1,300,000, but approximately \$500,000 less than that amount. There is an increasing tendency in recent cases which holds that accruals for income and other taxes which are paid by the customers considerably in advance of the time necessary for the company to make those tax payments obviate the need of making a separate allowance for working capital in rate cases. Among those cases are: Re New York Teleph. Co. (NY 1950) 84 PUR NS 267; Re Monmouth Consol. Water Co. (NJ 1949) 81 PUR NS 38; Re Michigan

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Bell Teleph. Co. (Mich 1950) 85 PUR NS 327; Re Chesapeake & P. Teleph. Co. (Md 1950) 84 PUR NS 175; Re Southern Bell Teleph. & Teleg. Co. (Ky 1951) 88 PUR NS 1.

It is the opinion of the Commission that because of the conflicting testimony of applicant as to the method used in arriving at cash working capital, its failure to show that income taxes collected from customers were not sufficient for such needs under the authority of the cases above cited, applicant has failed to sustain the burden of proof on its claim for cash working capital, and any allowance therefor should be eliminated from applicant's rate base.

We agree that applicant is entitled to some amount as an allowance for materials and supplies. While the testimony offered by applicant on this point is not altogether satisfactory, and the estimate of \$1,300,000 rests solely on the judgment of applicant's witness, Mr. Erickson, we will allow the amount claimed for materials and supplies, \$1,300,000, for each of the years in question.

[6] *Adjustment to Depreciation Reserves.* Applicant's reserve for depreciation and depletion includes an amount of \$691,876.74 for the year 1950 and \$642,163.96 for the years 1951 and 1952 applicable to other physical property, Account 110, in applicant's exhibits. The record discloses that this amount relates to an abandoned compressor station located at Elm Grove, Louisiana. It has been fully depreciated, and is included in the reserve for depreciation, applicable to transmission property. In fairness to applicant, we believe that this amount should be deducted from the

reserve for depreciation and depletion as shown in its exhibits. This adjustment serves to increase the rate base of the applicant by such amount.

[7, 8] *Nonutility Property.* Among applicant's gas-producing properties are leases, wells, and other production and gathering facilities in three gas fields, West Carthage and Bethany in Texas, and Logansport in Louisiana, each of which fields is operated as a separate unit. The company's pipeline system does not extend to these fields; none of them is connected in any manner to the company's system; and the gas is not used in the system, but sold to other gas companies in the field. The operations of these fields are profitable to applicant.

Applicant takes the position that these fields have no connection with its utility business and classifies them as nonutility property. Protestants strenuously contend that these properties are part of applicant's over-all utility operations and that a proportionate part of the investment in these facilities should be included in the rate base applicable to 3-B customers and that the revenues and expenses in connection therewith should also be allocated among the various classes of utility customers.

Eighty to 90 per cent of the so-called nonutility sales and revenues originate from the West Carthage area. Inasmuch as this field is so predominant, a discussion of it in some detail seems appropriate.

The Sabine river passes through this gas field. The gas produced on the east side of the river is physically connected to applicant's transmission system and the company admits that this portion of that field is utility

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property. This portion of the field east of the river is known as the East Carthage field. That part of the same gas field lying on the west side of the river is known as the West Carthage field. The two portions of this field are four or five miles apart. They are not physically connected. Neither is the West Carthage field physically connected to applicant's transmission system.

This gas produced from the West Carthage field is sold to United Gas Pipeline Company, a utility company. The selling price of this gas in 1950 was 5 cents per thousand cubic feet. The price was increased in 1951 and again in 1952, the price now being 9½ cents per thousand cubic feet.

Applicant buys gas from United Gas Pipeline in the Shreveport area about 65 miles from the West Carthage field. In 1950 and 1951 applicant paid 9 cents per thousand cubic feet for this gas purchased from United and, in June, 1952, the price was increased to 12 cents. The cost of the gas received from United at Shreveport is charged to the utility customers.

We are not impressed with the claim of applicant that these properties and their operation is nonutility in nature. The gas in West Carthage and other fields is the same kind of gas as that used in its admitted utility operations and we think the record discloses that these fields were purchased and developed as a reserve for its future utility business.

In fact, applicant's Exhibit 17, showing the total gas reserves for its utility customers, includes the gas reserves in the West Carthage and other so-called nonutility properties. Under its contract for sale of this gas to United,

applicant has the right to take 75 per cent of the West Carthage gas at any time for the needs of its own system, which clearly shows that applicant has considered this large field as a reserve for its utility needs.

The fact that the West Carthage field is four or five miles from any other part of the applicant's transmission system is not in itself determinative. Other gas fields not as yet developed are included in Account 100.4, Gas Plant Held for Future Use, and treated as utility property, although they are separate from the utility system.

When Mr. Erickson, applicant's principal witness, was pressed as to the impediment, if any, to connection of these properties to the general transmission system, he replied:

"There is none. We are satisfied to maintain that property as nonutility property, and not to attach it to our system. We want to keep that property the way we have got it now, and we are not going to attach it until it becomes incumbent upon us to attach it. We are not going to attach that field and it is not handicapped by any cost of the pipeline."

For these reasons as stated above, we are of the opinion that these properties are part of applicant's general utility operations. However, we are not persuaded that any part of these operations is properly classifiable to the property, revenue, and expenses attributable to 3-B type customers. The sales from the "nonutility" sales are all sales to other utilities. They are not sales to ultimate consumers, but are "sales for resale."

The record indicates that there was a proceeding pending before the Se-

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curities and Exchange Commission whereby at the conclusion thereof these properties referred to as nonutility may be transferred from applicant to an affiliate company. The Commission takes judicial notice of the order of the Securities and Exchange Commission dated October 1, 1952, which order in fact does transfer said properties.

We hold, therefore, that while such properties are utility in nature that they should be excluded from the determination of the rate base, and similarly from revenues and expenses applicable to the 3-B customers.

[9, 10] *Methods of Allocation between 3-B and Other Utility Customers.* The rate base as discussed above applies to all of applicant's utility operations. While some property is used solely for 3-B customers, by far the greatest amount is used jointly by all classes of customers, and some method of allocation must be adopted to determine what portion of the total property is devoted to the use of the 3-B customers. The same problem arises in connection with expenses.

Applicant advocates a method of allocation under which transmission costs of service are distributed to customer groups on the basis of use of pipeline capacity during peak periods, and under which production and purchased gas costs are distributed on the basis of annual volume delivery. Protestants suggest that this method of allocation be modified by revenue factor; the Government does not agree that the revenue factor is necessarily appropriate but insists that applicant's methods result in prejudice to the 3-B customers. All parties agree that the selection of an appropriate method

of cost allocation is a matter of judgment.

The principal objections of the protestants and the Government are to the basis for allocating transmission costs of service in which the peak-day period used by applicant is that day in the year on which greatest deliveries from the pipeline system are experienced. This day occurs during the heating season, usually in January or February, but may be in December when domestic and commercial customers—referred to as "human needs" customers—use maximum amounts of gas. The evidence shows that on that peak-day service to industrial customers is sometimes curtailed, although service to them is maintained to the fullest extent possible.

It is true, as protestants and the Government say, that service to the 3-B customers is interruptible, that is, service may be discontinued to them if the needs of other customers of applicant so require. This means that some of the 3-B customers are required to maintain expensive standby facilities, and protestants and Government urge that this factor should be considered in fixing their rates.

After consideration of all these facts, we believe that the method of allocation as proposed by applicant produces equitable results as between 3-B and other customers, and that its modification under the facts in this case is unnecessary. This method is not new and has been approved and used by courts and commissions in cases involving applicant as well as other gas utilities. *Arkansas Louisiana Gas Co. v. Texarkana* (CCA 8th 1938) 24 PUR NS 267, 96 F2d 179, certiorari denied (1938) 305 US 606,

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83 L ed 385, 59 S Ct 66; Mississippi River Fuel Corp. v. Federal Power Commission (1947) 82 US App DC 208, 69 PUR NS 129, 163 F2d 433; Colorado Interstate Gas Co. v. Federal Power Commission (1945) 324 US 581, 89 L ed 1206, 58 PUR NS 65, 65 S Ct 829; Re Arkansas-Louisiana Gas Co. Docket No. 16; and Re Twin City Pipe Line Co. (Ark 1941) 42 PUR NS 89.

We find that under such method of allocation the proportionate cost of service applicable to 3-B customers, based on actual experience for the years in question, are:

	1950	1951
Transmission	49.56%	41.24%
Production and Purchased Gas	53.91%	52.45%

It will be noted that the percentage of transmission property allocable to 3-B customers dropped from 49.56 per cent in 1950 to 41.24 per cent in 1951. Applicant offered proof to show that this sharp drop in 1951 resulted from an unusual cold weather spell, not

normal to the climate in this area, and that normal and average weather conditions would result in an experience similar to that found in 1950, or approximately 50 per cent.

Protestants contend that weather data introduced by them show that in fact 1951 was a more normal year, weatherwise, than was 1950, and furthermore say that applicant has not introduced evidence of its experience in any years prior to 1950, so that the Commission might ascertain what the average has been over a period of years.

However, we believe that under the evidence the year 1951 was abnormal and that the proper percentage factor to be used is the one experienced in 1950, so that in our calculations for the year 1952 the figures of 50 per cent for the transmission properties and the company's estimate of 53.34 per cent for production properties have been used. From the foregoing, we find that the proper rate bases applicable for production and transmission properties are as follows:

	1950	1951	1952
Production	\$11,214,462.95	\$11,815,274.91	\$11,703,537.26
Transmission	19,314,604.73	21,832,513.73	22,863,646.07

Applying the method of allocation discussed above, we find that, for those years, the rate bases for 3-B properties are as follows:

1950	\$15,618,035.09
1951	15,200,840.35
1952	17,674,489.81

No Rate Base Is Determined for 1953. The applicant made no serious attempt to establish a rate base for that year, and the evidence offered is entirely too speculative and conjectural
97 PUR NS

for the purpose of making a determination.

Adjustments to Revenues and Expenses. The Commission has accepted applicant's calculations of revenues and expenses, except for the adjustment set out below:

[11] *Elimination of Profits of Affiliated Company.* Arkansas Natural Gas Corporation owns 100 per cent of the common stock of both applicant and Arkansas Fuel Oil Company. In connection with the processing of appli-

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cant's gas, both produced and purchased, there are certain profitable by-products, such as propane, butane, and gasoline. These by-products are sold by applicant's affiliate, Arkansas Fuel Oil. Under the arrangement between the two companies, applicant guarantees a 6½ per cent return to Arkansas Fuel Oil on the property investment it has in connection with such sale; and after such return, the profits from the sale of these by-products are divided 25 per cent to Arkansas Fuel Oil and 75 per cent to applicant.

The record discloses that a large amount (\$690,852) was realized by applicant from such by-products sales arising from so-called "non-utility" gas produced. We have not included any portion of that amount in our calculations.

However, Arkansas Fuel Oil made additional profits from the sale of by-products arising solely from admittedly utility production. Under the precedents of this Commission and in accordance with regulatory practice generally, applicant's utility customers are entitled to credit for these profits realized by the wholly owned subsidiary of the holding company that owns 100 per cent of the common stock of applicant. 3-B type customers are entitled to share proportionately in these profits. The Commission finds that the amount applicable thereto for the year 1950 is \$26,955.27; for the year 1951 is \$199,310; and as estimated by applicant for 1952 will be \$226,695.

[12] *Rate of Return.* Applicant urges that it be allowed to earn a return of 6½ per cent on that portion of its rate base which is allocable to 3-B customers. Protestants and the Government urge that 6 per cent is as high

a rate of return as should be allowed. In view of the matters hereinafter discussed relative to protestants' claim that the company's over-all earnings should be considered, as well as those relating only to 3-B customers, we adhere to our previous rulings and hold that a 6 per cent return under the circumstances in this case is adequate.

[13] *Revenues and Cost of Service.* After making the adjustments to applicant's rate base as heretofore set forth, using a 6 per cent rate of return and the same percentage for income taxes as was used by applicant in its exhibits, as shown by Appendix B [omitted herein], the cost of service to 3-B customers in 1950 (excluding any revenues from increased rates involved in this proceeding) exceed the revenues from such customers by the amount of \$1,207,352.71. There was a similar deficit in 1951 of \$1,605,452.75, and, in 1952, the deficit, based on applicant's estimates, will be \$2,466,713.03. As stated above, this is before any rate increase.

Applicant has not applied its proposed rate increase to all 3-B customers at the same time, its reason being that it had contract commitments with certain of these customers and that it did not feel justified in making the increases applicable to any user whose contract had not terminated.

Protestants contend that they, as well as some other of the 3-B customers, have been discriminated against because the same rates under the new schedule were not applied by applicant to all customers to whom it is admittedly applicable.

It is admitted by applicant that some customers were being served under

ARKANSAS PUBLIC SERVICE COMMISSION

contract rates. There were a few of the largest customers in the 3-B type classification which consumed approximately $\frac{2}{3}$ or 50,000,000 thousand cubic feet of the total 75,000,000 thousand cubic feet consumed by all 3-B customers in 1950. Applicant allocated production expenses and property to 3-B customers on the basis of 75,000,000 thousand cubic feet consumption in 1950, even though it included those big customers using $\frac{2}{3}$ of the total amount which were not on the new rates.

Protestants say that total use and peak-day use are used as allocation factors to apportion property and expenses to 3-B type consumers. The amounts used by these big consumers, $\frac{2}{3}$ of the total, is included in the ratio applicable to 3-B type consumers in so far as production expenses and property are concerned; and by such method a larger deficit is shown in applicant's revenues than is justified under the law, and the protestants further allege that the effect is to place that additional burden on the other smaller 3-B customers who together use only $\frac{1}{3}$ of the total gas consumed by the group. However, the Commission, as set out in Appendix B [omitted herein], has eliminated the basis for this contention by requiring the company to file a 3-B rate schedule which, when applied to all 3-B customers, would produce no more than the total cost of service to that group.

We agree that applicant would not be justified under the law in making its 3-B rate schedule applicable to part of the customers in that category and at the same time withholding its application to others because of contract commitments. In fact, § 73-206,

Arkansas Statutes, 1947, Annotated, specifically prohibits any discrimination; however, it is clear in the instant case that all 3-B type customers did not become gas consumers on the same date originally, and the expiration date of the 3-B contracts varied. We find that all such contracts have now expired and all 3-B type customers are now being served under the new 3-B rate schedule.

[14] Applicant's Earnings. Protestants urge that the over-all earnings of applicant in the years 1950 and 1951 were such that no increase should be allowed for those years. Protestants' Exhibit 32 tends to show that on applicant's rate base for all of its properties, including "nonutility properties" and the restoration of the sum of \$5,400,000, Account 100.5, applicant earned 7.69 per cent return in 1950 and 6.43 per cent return in 1951, not including any revenues on account of rate increases sought in this hearing.

Protestants' Exhibit 21 urges that applicant earned on its total capitalization and surplus 7.77 per cent in 1950 and 7.28 per cent in 1951, and that for the five years, 1946 through 1950, the company earned an average of 7.75 per cent return. Exhibit 21 further shows that on its capital stock and surplus applicant earned 13.36 per cent return in 1950, and 12.40 per cent in 1951.

The issue here is not whether applicant is earning a fair return on all of its properties, but specifically whether it is doing so on that portion thereof devoted to the service of the 3-B customers. Each group of consumers should bear its proportionate part of the cost of service, and, therefore, the

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rate which will produce a fair return to the company for service to the 3-B group must be determined separately without regard to the company's other properties and the revenues received therefrom. We hold, therefore, that applicant is entitled to an increase in rates for the years 1950 and 1951, limited, however, as heretofore stated.

Escalator Provision of Proposed Rate Schedule. Much testimony and argument has been directed by protestants and the Government against the escalator provision incorporated in the proposed 3-B Rate Schedule by applicant to enable it to adjust its 3-B rate annually in relation to increases in the cost of purchased gas. During the hearings, applicant through its testimony modified the effect of this clause by stating that it intended that any increase thereunder would be related to over-all cost of service rather than the increase in the cost of purchased gas alone. It also appears that no further increase may be necessary in 1952 or 1953. However, if an additional increase becomes necessary, the applicant may resort to the Commission at any time.

The Commission has therefore concluded that the escalator provision should be stricken from the proposed new 3-B Rate Schedule.

ORDER

It is therefore *ordered* that:

1. Within thirty days from the date hereof the applicant shall:

(a) Design and file with this Com-

mission a rate for 1950, applicable to the type 3-B industrial customers, which will produce an annual gross revenue in the amount of \$6,891,700 when applied to the annual consumption of *all* 3-B type industrial customers.

(b) Design and file with this Commission a rate for 1951, applicable to the type 3-B industrial customers, which will produce an annual gross revenue in the amount of \$8,405,100 when applied to the annual consumption of *all* the 3-B type industrial customers.

(c) Design and file with this Commission a rate for 1952, applicable to the type 3-B industrial customers, which will produce an annual gross revenue in the amount of \$11,076,400 when applied to the annual consumption of *all* the 3-B type industrial customers.

2. Within thirty days after the applicant has filed the above ordered rate schedules with this Commission and said rate schedules have been approved, the applicant shall refund the differences between the revenue produced by such revised rates and the amounts collected from the customers on the basis of the rates hereby ordered produced.

3. Within thirty days from this date applicant shall file a new and revised 3-B Rate Schedule providing for increased rates in the future which will produce an annual gross revenue in the amount of \$11,076,400.

CONNECTICUT PUBLIC UTILITIES COMMISSION

Re Hartford Electric Light Company

Docket No. 8746
December 12, 1952

APPPLICATION by electric company for authority to issue debentures to finance construction program; granted.

Security issues, § 106 — Interest rate — Reasonableness.

1. A net cost of 3.18 per cent for the proposed issue of \$15,000,000 debentures was considered reasonable, where the comparison of sixteen selected sales made during a recent period indicated that only three companies sold debt securities on a net cost basis lower than 3.18 per cent and one company on the same basis, and where, during the same period, two private sales were marketed at a cost basis higher than that experienced by the company, p. 81.

Security issues, § 58 — Purpose of issuance — Construction program.

2. The issuance of long-term debentures was authorized where the proceeds of the sale were to be used for necessary and reasonable construction and betterments of an electric company and where they were to be marketed at a fair and reasonable price, p. 81.

By the COMMISSION: By an application filed October 22, 1952, The Hartford Electric Light Company, a public service company as defined in § 5390 of the General Statutes, Revision of 1949, hereinafter referred to as the company, seeks authority for the issuance of \$15,000,000 in the aggregate principal amount of its 25-year $3\frac{1}{4}$ per cent debentures, 1952 series, due September 1, 1977, pursuant to § 5433 of the General Statutes.

By its notice of hearing, dated October 24, 1952, the Commission assigned the matter for a public hearing at its offices in Hartford, on Wednesday, November 5, 1952. At the hearing, the company appeared by counsel. There were no appearances in opposition or as intervenors.

The company is presently engaged

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in a construction program calling for the expenditures of approximately \$23,000,000 from 1952 through 1954. This construction program was exhaustively analyzed by the Commission at the occasion of its consideration of the rate base, revenues, and operating expenses of the company in the recent proceeding in which the Commission approved a schedule of increased rates and charges for application to all the company's customers, effective on all bills rendered on or after November 1, 1952, in Re Hartford Electric Light Co. Docket No. 8687, October 10, 1952, 95 PUR NS 161. Particular attention there was directed to the proposed new generating station in Middletown which will account for \$15,000,000 of the \$23,000,000 construction program. In

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that connection the Commission, at p. 166, said: "In order to guarantee adequate service at all times to the customers of the company, to provide a reserve for future growth, and, at the same time, to allow a sufficient margin of spare for maintenance and emergencies, this additional capacity is necessary."

The balance of the construction program was also analyzed at the time of the Commission's consideration culminating in the issuance of Docket No. 8687, *supra*, and again on the occasion of the submission of testimony in evidence in this proceeding. The growth of the company's load and the gradually decreasing reserve capability were fully discussed in Docket No. 8687, *supra*, and indicated that the company must engage in sizable construction activities in order to accommodate the loads which it can reasonably anticipate in the very near future, including expenditures for transmission and subtransmission facilities, substation and substation improvements, other distribution facilities, additions, and improvements to its South Meadow Station, transportation equipment, ordinary line extensions, transformers, meters, and other miscellaneous expenditures. We find, therefore, that the expenditures for which the construction program mentioned above were designed are necessary in the public interest in order to enable the company adequately to provide the service which is its obligation and on which it is the duty of the Commission to insist.

Depreciation accruals will be used to finance a portion of the construction program. The \$15,000,000 de-

bentures to be issued at this time will finance substantially all of the remainder while the company has not at the present time any plans as to the method or timing of financing the remaining balance of approximately \$3,000,000. When questioned on the advisability of financing only \$15,000,000 at this time, the chairman of the company's board of directors testified that because the estimate of cash available was only approximate and uncertain, and many of the contract commitments have escalator clauses, there was considerable doubt in the minds of the management as to the exact amount of additional funds required. Moreover, the marketing by the company of debt securities in a sum larger than \$15,000,000 would bring the company's debt ratio over 50 per cent and would probably result in a loss by the company of its triple A rating, according to expert advice received by the company. As a consequence of losing this rating, the cost of money to the company would probably be adversely affected.

[1, 2] After the issuance of the \$15,000,000 of additional debentures, the company's capitalization will consist of \$31,863,000 long-term debt or 48 per cent of total capitalization, \$8,000,000 preferred stock or 12 per cent of total capitalization, \$26,955,610 common stock and surplus or 40 per cent total capitalization. The funds will be used to repay current liabilities in the form of notes payable incurred for construction purposes already carried out as part of the program discussed above and the balance will be used to finance the construction program directly.

The debentures are offered for pri-

CONNECTICUT PUBLIC UTILITIES COMMISSION

vate sale to institutions for investment at 101.72 per cent, plus accrued interest, yielding 3.15 per cent to the buyer and costing approximately 3.18 per cent to the company at a net cost basis. The company has engaged the services of an investment banking institution as agent for the purpose of marketing the securities. This agency agreement provides for a finder's fee of three-sixteenths of one per cent, if the bonds are sold. At the time of the hearing, definite commitments had been received for part of the aggregate principal amount and, by the time this finding issues, the company has notified the Commission that the entire amount has been sold.

Additional estimated expenses involved in the issue, including Federal revenue stamps, trustee's fee, legal fees, among others, amount to \$44,500, making provision for the deduction of \$3,000 for financial services which appear to be only problematical. Thus, the total expenses will amount to \$75,500 including the finder's fee. These expenses compare favorably with similar issues by Connecticut utilities and are approved for purposes of this proceeding.

The debentures will be issued under and pursuant to a trust indenture, dated as of July 1, 1947, between the company and Old Colony Trust Company, of Boston, Massachusetts, as supplemented and amended by a first supplemental indenture, dated as of March 15, 1952, and by a second supplemental indenture, dated September 1, 1952, describing the \$15,000,000 aggregate principal amount of debentures of the 1952 series. This indenture had not been executed at the time of the hearing. The company, there-

fore, is expected to file with the Commission a certified copy as soon as the same has been executed.

The offering price of 101.72 per cent of par, which is equivalent to a 3.15 per cent yield at maturity to the purchaser, represents a net cost to the company of 3.18 per cent after making provision for the expenses described above. From the summary and analysis of public utility long-term debt issues sold since April 1, 1952, for an electric and combination gas and electric company, consisting of a selected group of issues during that period, it appears that of sixteen selected public sales made during that period only three companies sold debt securities on a net cost basis lower than 3.18 per cent and one company on the same basis. During the same period, two private sales were marketed at a cost basis higher than that experienced by the company. All these issues were mortgage bonds while the issue under consideration herein is a debenture series. Since, however, the company has no mortgage bonds outstanding, the effect is practically the same.

From these analyses and from the comparison of issues of comparable size marketed by other utilities in Connecticut, it is apparent that the expenses incurred and the cost to the company of the proposed issue is within reasonable limits.

We find, therefore, that the proceeds of the proposed issuance of \$15,000,000 in the aggregate principal amount of its 25-year 3½ per cent debentures, 1952 series, due September 1, 1977, will be used for necessary and reasonable construction and betterments for the company's utility plant,

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and will be marketed at a price which is fair and reasonable for the company. We find, therefore, that pursuant to § 5433 of the General Statutes, Revision of 1949, the application should be approved.

The Hartford Electric Light Company is, therefore, authorized to issue \$15,000,000 aggregate principal amount of Debentures to be designated "Twenty-five Year $3\frac{1}{4}$ per cent Debentures, 1952 Series, due September 1, 1977" and to be sold at a price not less than 101.72 per cent of the principal amount thereof. Said debentures shall be issued under a trust indenture dated as of July 1, 1947, between The Hartford Electric Light Company and Old Colony Trust Company, trustee, as heretofore supplemented and amended by a first supplemental indenture dated as of March 15, 1952, and as to be supplemented and amended by a second supplemental indenture to be dated as of September 1, 1952, which second supplemental indenture shall be substantially in the form of second supplemental indenture submitted at the hearing on said application. Said debentures shall be dated as of September 1, 1952, shall mature September 1, 1977, unless earlier redeemed, and shall be subject to redemption at the option of the company at the applicable redemption prices as provided in the second supplemental indenture, which redemption prices shall be determined substantially in the customary manner as set forth in

the form of second supplemental indenture submitted at the hearing on said application. A certified copy of the second supplemental indenture, in the form in which the same is executed by the parties thereto, shall be filed with the Commission as soon as practicable after the same has been executed.

The proceeds of the said sale of debentures, after payment of approximately \$72,500 in expenses, shall be used first to discharge outstanding notes of the company with accrued interest presently amounting to \$2,200,000 and expected to total approximately \$3,000,000 by the time the proceeds of this issue are available and thereafter to finance capital expenditures for additions and improvements to the company's utility plant and equipment.

The company shall also submit on December 31, 1952, and at the time of the submission of its annual report thereafter each year, an itemized statement of construction projects which were financed in whole or in part by the proceeds of the securities authorized above. Upon the exhaustion of the funds realized from the proceeds of said securities, this requirement will no longer be necessary.

We hereby direct that notice of the foregoing be given by the Secretary of this Commission by forwarding true and correct copies of this document to parties in interest, and due return make.

ILLINOIS APPELLATE COURT, FIRST DISTRICT,
THIRD DIVISION

Burke et al.

v.

Illinois Bell Telephone Company

Gen. No. 45796

— Ill App —, 109 NE2d 358

December 10, 1952; rehearing denied December 31, 1952

A PPEAL from dismissal of complaint in representative action by telephone subscribers for refund for failure to publish directories; affirmed.

Reparation, § 8 — Court jurisdiction — Telephone rate refund — Failure to publish directory.

1. An action by telephone subscribers against the company for refund because of the company's failure to publish a directory is a claim for reparations within the meaning of the Public Utilities Act and not a claim for consequential damages and, consequently, should be brought before the Commission instead of the court, p. 86.

Parties, § 3 — Representative action — Telephone subscribers — Lack of directory.

2. Telephone subscribers served by different exchanges with different classes of service and rates for varying periods of service are not in a position to bring a representative action, where a telephone company fails to furnish them with a directory, since each subscriber's claim for damages presents a different question with respect to the right of recovery and the amount of the damages, p. 87.

APPEARANCES: Robert E. Dowling, Chicago, for appellants; Kenneth F. Burgess, Douglas F. Smith and Richard L. Selle, Chicago, Sidley, Austin, Burgess & Smith, Chicago, of counsel, for appellee.

LEWE, P.J.: Plaintiffs, telephone subscribers of defendant, filed a representative suit alleging in substance that defendant, a public utility, is subject to the provisions of the Illinois Commerce Commission Act; that on January 3, 1923, the Commerce

Commission, in accordance with the powers vested in it, issued its General Order 107, PUR1923E 43, which provides in Rule X that telephone directories of exchanges serving more than one thousand subscribers shall be revised, printed, and distributed to subscribers semiannually and that telephone directories of all other exchanges shall be revised, printed, and distributed to subscribers at least once each year; that in consideration of its compliance with the provisions of

Rule X, the Commerce Commission authorized defendant to charge its subscribers certain rates; that the defendant willfully failed and neglected to revise, print, and distribute semiannually telephone directories to its subscribers of exchanges in the state of Illinois serving more than one thousand subscribers, and that it also willfully neglected and failed to revise, print, and distribute its directories at least once a year to its subscribers of exchanges serving less than one thousand subscribers, contrary to the provisions of Rule X of General Order 107, *supra*.

The complaint further alleges that as a result of the willful neglect of the defendant to revise, print, and distribute its directories pursuant to Rule X of General Order 107, *supra*, of the Commerce Commission, "millions of hours of time, inconvenience, and aggravation" have been suffered by the subscribers of the defendant in the city of Chicago; that in the suburban territory about the city of Chicago and in other communities throughout Illinois the defendant also failed to comply with Rule X; that the approximate cost of revising, printing, and distributing each proposed semiannual issue in the city of Chicago is approximately \$2 each; that the cost of revising, printing, and distributing directories in the suburban area of Chicago is one dollar each; that for the other subscribers served by the defendant the cost of revising, printing, and distributing is approximately 50 cents each; and that as a result of the willful refusal of the defendant to furnish to its subscribers the directories provided for by Rule X of General Order 107, *supra*, of the Commission, plaintiffs and all other subscribers "have been

deprived of services for the safety, health, comfort, and convenience of themselves and all other subscribers."

In the concluding paragraph of the complaint the plaintiffs on behalf of themselves and all other subscribers of the defendant "request" a *refund* from the defendant to each subscriber in the city of Chicago of at least \$2 an issue of the telephone directory of which the defendant has wrongfully deprived its subscribers, and at least one dollar an issue of the suburban directory; and for general relief.

Defendant filed a motion to strike the complaint. This motion was denied except that all allegations relating to damages alleged to have been sustained by plaintiffs prior to March 10, 1938, were stricken. After issues were joined the cause was referred to a master in chancery. While the cause was pending before the master, defendant filed a motion for summary judgment and plaintiffs filed a motion to dismiss defendant's motion for summary judgment. Both of these motions were also referred to the same master in chancery "for hearing and disposition." In his report the master recommended that plaintiffs' motion to dismiss defendant's motion for summary judgment should be sustained. Objections were filed by defendant and the master issued a supplemental report reaffirming the findings of his original report but was of the opinion that the circuit court lacked jurisdiction to hear the cause. In conformity with the master's findings and recommendations a decree was entered dismissing the complaint for want of jurisdiction of the subject matter.

The trial court found that the claim as alleged in the complaint is "in effect

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and substance" for a refund of that part of the rates paid by defendant's subscribers for directories not received, and hence is a claim for reparations within the meaning of § 72 of the Public Utilities Act, and, further, if plaintiffs' claim be considered one for consequential damages under § 73 of the Public Utilities Act it cannot be maintained as a representative action. Ill Rev Stat 1951, Chap 111½, §§ 76, 77.

[1] Plaintiffs' principal contention is that the court erred in dismissing the complaint for want of jurisdiction of the subject matter.

The pertinent provisions of § 72 read:

"When complaint has been made to the Commission concerning any rate or other charge of any public utility and the Commission has found, after a hearing, that the public utility has charged an excessive or unjustly discriminatory amount for its product, commodity, or service, the Commission may order that the public utility make due reparation to the complainant therefor, with interest at the legal rate from the date of payment of such excessive or unjustly discriminatory amount."

In construing § 72 in *Terminal R. Asso. v. Public Utilities Commission* (1922) 304 Ill 312, 317, 136 NE 797, 799, our supreme court said:

"The evident intent and purpose of the legislature in providing a method by which reparation may be recovered and in requiring that an application therefor shall be first made to the Commission, precludes an action at law for such reparation until the Commission has heard a claim therefor. This is the view taken by the Su-

preme Court of the United States with reference to similar provisions in the Interstate Commerce Act. *Texas & P. R. Co. v. Abilene Cotton Oil Co.* (1907) 204 US 426, 51 L ed 553, 27 S Ct 350. The similarity between the Interstate Commerce Act and our Public Utilities Act makes the decisions of the Supreme Court of the United States persuasive as to the correct rule to be adopted in this state."

To the same effect see *Medusa Portland Cement Co. v. Illinois C. R. Co.* (1936) 287 Ill App 549, 5 NE2d 782.

The governing rule has been stated by Justice Brandeis in *Great Northern R. Co. v. Merchants Elevator Co.* (1922) 259 US 285, 291, 66 L ed 943, 42 S Ct 477, 479.

"Whenever a rate, rule, or practice is attacked as unreasonable or as unjustly discriminatory, there must be preliminary resort to the Commission. Sometimes this is required because the function being exercised is in its nature administrative, in contradistinction to judicial. But, ordinarily, the determining factor is not the character of the function, but the character of the controverted question and the nature of the inquiry necessary for its solution. To determine what rate, rule, or practice shall be deemed reasonable for the future is a legislative or administrative function. To determine whether a shipper has in the past been wronged by the exaction of an unreasonable or discriminatory rate is a judicial function. Preliminary resort to the Commission is required alike in the two classes of cases. It is required because the inquiry is essentially one of fact and of discretion

in technical matters, and uniformity can be secured only if its determination is left to the Commission."

Plaintiffs argue that their claim is not based on excessive rates but to recover damages for loss of service under § 73 which provides:

"In case any public utility shall do, cause to be done, or permit to be done any act, matter, or thing prohibited, forbidden, or declared to be unlawful, or shall omit to do any act, matter, or thing required to be done either by any provisions of this act or any rule, regulation, order, or decision of the Commission, issued under authority of this act, such public utility shall be liable to the persons or corporations affected thereby for all loss, damages, or injury caused thereby or resulting therefrom, and if the court shall find that the act or omission was wilful, the court may in addition to the actual damages, award damages for the sake of example and by the way of punishment. An action to recover for such loss, damage, or injury may be brought in any court of competent jurisdiction by any person or corporation."

The only allegations in the complaint remotely suggesting consequential damages state that "millions of hours of time, inconvenience, and aggravation have been suffered by subscribers as a result of defendant's willful refusal to revise, print, or distribute its directories as prescribed by Rule X." It is not alleged that any particular subscriber has suffered any loss.

We think plaintiffs' position is untenable and agree with the finding of the trial court that the gist of plaintiffs' claim as alleged is for repara-

tions within the meaning of § 72 and not for consequential damages, as plaintiffs maintain, under the provisions of § 73.

[2] Moreover, we are of the opinion that plaintiffs' complaint does not state a class action under the provisions of § 73 of the Public Utilities Act. In the recent case of *Newberry Library v. Board of Education* (1944) 387 Ill 85, 55 NE2d 147, plaintiff, the owner and holder of a bond and interest coupon executed by the Board of Education, instituted a class action in his own behalf and in behalf of all other owners and holders of certain bonds and coupons issued by the board of education at the same time and in the same series. There the court said, 387 Ill at p. 95, 55 NE2d at p. 153:

"To constitute a class suit in which the court acquires jurisdiction over every member of the class, and the decree therein binds members of that class not present, the subject matter of the litigation must be a common or joint interest, not only in the question involved but likewise interest in common in the remedy and subject matter of the suit itself (*Scott v. Donald* [1897] 165 US 107, 41 L ed 648, 17 S Ct 262), or the relationship between the parties present and those who are absent must be such as legally to entitle the former to stand in judgment for the latter. [Citing cases.]

"Members of a class may represent others of that class where the sole and common interest of the entire class is to assert or challenge a claimed right; but where the substantial interests of parties present in such a suit are not necessarily or even probably the same as the interests of those they seek to represent, such parties present cannot

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be said to afford that protection to absent parties required by due process."

To the same effect is *Peoples Store of Roseland v. McKibbin* (1942) 379 Ill 148, 89 NE2d 995.

The rule announced in the cases last cited has been sustained in other jurisdictions. See *Davies v. Columbia Gas & E. Corp.* (1949) 151 Ohio St 417, 86 NE2d 603; *Batman v. Louisville Gas & E. Co.* (1920) 187 Ky 659, 220 SW 318.

In the present case according to the allegations of the complaint the subscribers whom plaintiff purports to represent are residents of the city of Chicago and other communities in the state. These subscribers are served by different exchanges with different classes of service and rates and for varying periods of service. Manifestly the claim of each subscriber is

legally separate and distinct since each subscriber's claim presents a different question with respect to the right of recovery and the amount of the alleged damages. In order to recover damages each subscriber must necessarily make proof of his own loss of time, inconvenience, and aggravation suffered, unrelated to any damages suffered by other subscribers. Under these circumstances there can be no doubt of the impropriety of a class suit. In the view which we take of this case it is unnecessary to consider the other points urged.

For the reasons assigned, the order here appealed from, dismissing the complaint for want of jurisdiction of the subject matter, is affirmed.

Order appealed from affirmed.

Feinberg and Kiley, JJ., concur.

GEORGIA PUBLIC SERVICE COMMISSION

Re Georgia Power Company

File No. 19314, Docket No. 467-U

December 23, 1952

APPPLICATION by power company for prescription of accounting procedures to be followed with respect to amortization of emergency defense facilities; method of accounting prescribed.

Accounting, § 28 — Amortization of emergency defense facilities.

1. A method of accounting for the amortization of emergency defense facilities which contemplated normal depreciation, a charge to "Provision for Deferred Income Taxes" and a credit to "Reserve for Deferred Income Taxes" during the amortization period, and a charge to the Reserve and a credit to "Current Income Taxes Deferred in Prior Years" after that period has elapsed, was approved, subject to the full amount of credit to the "Reserve for Deferred Income Taxes" being credited back to income after the amortization period and subject to the accounting for deferred taxes being limited to a 30-year period, p. 92.

RE GEORGIA POWER CO.

Accounting, § 28 — Amortization of emergency defense facilities — Restricted earned surplus.

2. A method of accounting for the amortization of emergency defense facilities which involved the carrying of deferred taxes in a restricted earned surplus account, rather than in a reserve for deferred income taxes, was considered improper for a regulated industry, in that it would increase the capitalization of the company during a period of accounting for the deferred taxes and, apparently, make the deferred taxes capital on which the company or its stockholders might claim a return, p. 92.

Valuation, § 168 — Deferred taxes — Exclusion from rate base.

3. Deferred taxes which a utility has on hand because of the application of the short-term amortization provisions of the Internal Revenue Code are supplied at no interest or dividend cost to the company, and they should be excluded from an invested capital rate base and deducted from a plant and equipment rate base if the deferred funds are invested in plant and equipment, materials and supplies, or necessary working capital, p. 92.

Accounting, § 28 — Amortization of emergency defense facilities.

Discussion of the various accounting procedures which might be used with respect to the amortization of emergency defense facilities, p. 91.

APPEARANCES: Herman W. Booz-
er, Vice President and Comptroller,
and Robert S. Lyman, Arthur Ander-
sen & Company, for the company; N.
Knowles Davis, Chief Engineer, and
Frank G. Heald, Utilities Auditor, for
the Commission.

By the COMMISSION: An applica-
tion was received from Georgia Power
Company on December 10, 1952, in
the form of a request for instructions
with respect to accounting for amorti-
zation of emergency defense facilities
under § 124-A of the Internal Revenue
Code. This matter was assigned for
hearing before the Commission on
December 22, 1952, when it came on
to be heard.

Section 124-A of the Internal Re-
venue Code provides for the certifica-
tion of emergency defense facilities.
When so certified such facilities may
be amortized for income tax purposes
over a period of five years in lieu of
normal depreciation expense associ-

ated with such facilities. The effect
of this amortization deduction reduces
income taxes during the 5-year period
and increases such taxes thereafter
and in effect represents a deferment in
the payment of Federal income taxes.
This application is concerned with the
accounting to be followed by the com-
pany to properly reflect the effect of
such amortization deductions for tax
purposes. According to the applica-
tion of the company, certificates of
necessity have been issued by the De-
fense Production Administration on
the following projects to the extent
shown on the following page.

It is estimated that the total amount
to be amortized for the above projects
over sixty months will exceed normal
depreciation for that period by \$36,-
665,840. It is stated that while no
other applications of the company for
certificates of necessity are now pend-
ing before the Defense Production
Administration, others may be made

GEORGIA PUBLIC SERVICE COMMISSION

Necessity Certificate Number	Project	Estimated Cost	Percentage Approved By DPA	Estimated Amount to be Amortized
TA 841	Plant Yates Unit No. 3 and Transmission Connections to System	\$12,434,256	50%	\$6,217,128
TA 848	Florida State Line—Plant Mitchell Trans- mission Line	893,098	50%	446,549
TA 850	Bartlett's Ferry Plant Unit No. 4	1,471,032	25%	367,758
TA 852	Plant McManus Unit No. 1 and Transmis- sion Connections to System	7,745,026	50%	3,872,513
TA 5577	Commerce-Athens-Warrenton Transmission Line	1,159,908	25%	289,977
TA 5578	Macon-Eastman-Vidalia Transmission Line	149,556	25%	37,389
TA 5319	Sinclair Dam Units No. 1 and No. 2 and Transmission Conn. to System	11,986,542	50%	5,993,271
TA 10865	Lockheed Aircraft Corp. Substation	180,208	40%	72,083
TA 19043	Transmission Connections to Urquart Plant of South Carolina Gen. Co.	499,093	55%	274,501
TA 10863	Plant Hammond Unit No. 1 and Transmis- sion Connections to System	15,329,678	55%	8,431,323
TA 13948	Plant Hammond Unit No. 2 and Transmis- sion Connections to System	11,965,250	55%	6,580,888
TA 18886	Plant Hammond Unit No. 3 and Transmis- sion Connections to System	15,369,480	65%	9,990,162
Total		\$79,183,127		\$42,573,542

from time to time in the future. While the above amounts have been certified by the Defense Production Administration, the company has as yet made no election as to whether or not it will claim the amortization for income tax purposes, as authorized under § 124-A of the Internal Revenue Code. It is further represented that the effect of electing to take deductions for income tax purposes under the certificates of amortization is to anticipate in the amortization period the allowable deductions for depreciation expense which would normally be allowable over the useful life of the property remaining after the amortization period, and that if the tax rate remains constant, the aggregate income tax payments over the entire period will be the same whether the deduction is taken in sixty months or is spread over the life of the property. The application concludes, therefore, that the effect of taking accelerated amortization merely defers liability for taxes on income to the

post-amortization period. The company contends that the election to take the amortization deductions results in the provision of cost free capital funds during the period of tax deferral for the financing of property additions.

It is further alleged that the amortization under certificates of necessity by the company without adjustment for the resulting distortion of income would create an inequity both as to customers and investors by pre-empting for current operations credits which properly apply over the entire lives of the facilities, and the application proposes accounting treatment which would prevent the alleged distortion of income.

Mr. Herman W. Boozer, comptroller of the company, and Mr. Robert S. Lyman of Arthur Andersen and Company, represented the applicant at the hearing. The letter application filed by the company was adopted by Mr. Boozer as his direct testimony which sets forth the proposed account-

RE GEORGIA POWER CO.

ing suggested by the company as follows:

(a) That the company shall account for property in respect of which said certificates of necessity are issued in the same manner as other property of the company and shall accrue depreciation of such facilities on its books of the normal rate of depreciation.

(b) That the company shall charge, during the period the amortization of emergency facilities results in reduction of income taxes, to "Provision for Deferred Income Taxes" as a sub-account under Account 507, Taxes, and shall credit to "Reserve for Deferred Income Taxes," an amount equal to the reduction in income taxes arising out of accelerated amortization in excess of normal depreciation allowable for income tax purposes.

(c) That the company shall charge, during the period the accelerated amortization of emergency facilities results in increased income taxes, to "Reserve for Deferred Income Taxes" until such reserve is exhausted and shall credit to "Current Income Taxes Deferred in Prior Years," a sub-account under Account 507, Taxes, an amount equal to such increase in income taxes, except as modified below.

There are at least four methods of accounting (including the above) which warrant consideration. These are (1) charging taxes at the amount actually payable for the year to expenses with no change in depreciation expense; (2) charging taxes at the amount actually payable for the year, and charging depreciation expense at the accelerated rate claimed for tax purposes; (3) charging taxes at the amount payable for the year with an

increase in depreciation expense equivalent to the tax reduction for the year, and with a reduction in depreciation expense after the 5-year amortization period equivalent to the income tax increase thereafter; and (4) the method proposed by the company.

Argument in support of the first method listed above is that it records and reports results of operation correctly for the specific period under review, that tax expense is no more than tax liability for that period, and that correct earnings for the period in question are divulged. These arguments are sound if the perspective is limited to the single year being considered. However, over a longer period the results from the application of this method are questionable. The method seems to assume that the amortization provision for income tax purposes represents a tax saving, while in reality it is a tax deferment, because higher taxes will be payable than otherwise would be after the amortization period has ended. The later higher taxes result from the lesser depreciation expense deduction for tax purposes after the facilities are amortized. The application of this method records higher earnings in the 5-year amortization period and lower earnings thereafter. If no rate revision is made the tax deferment could be paid out in dividends to stockholders, certainly an undesirable result. If rates for service are adjusted to reflect the tax deferment, the result is lower rates for five years, and then higher rates than otherwise for service thereafter, everything else being equal. With no change in cost of service (including the return component) there seems to be no good argument to reduce rates

GEORGIA PUBLIC SERVICE COMMISSION

at present at the expense of future ratepayers. The inevitable results would be higher rates in the future, resulting from the benefits given today and the creation of a higher cost of operation in the future. It appears that cost of operation should not be so altered, particularly when it adds future costs to currently increasing costs.

The second method accounts for depreciation expense at the amount resulting from the accelerated amortization of the defense facilities. If the facilities had a useful life of only five years (the amortization period), this would be the only proper method to use. It would then depreciate the facilities over their useful life. However, none of the facilities in question have such a limited life. The result of this method would increase operating revenue deductions in the first five years by the amount that the increase in depreciation expense exceeded the amount of tax deferment. After the 5-year amortization period the operating revenue deduction would be reduced. This method therefore has the reverse effect of the first method discussed above in that lower earnings would be recorded during the first five years with higher earnings shown thereafter. If rates for service followed this result, the present rates would be higher with a later lower level of rates for service. If the rates for service are not altered there might be serious difficulty encountered in raising required capital funds during the initial period of reported inadequate earnings.

The third method listed would increase depreciation expense during the 5-year amortization period in an

amount equal to the tax deferment, and later decrease this expense in the amount of later increased income taxes. This would eliminate the objections to the above two methods that either earnings or rates for service would fluctuate with tax deferment and settlement. It has an added appeal that the amount of deferred taxes would be in the depreciation reserve and, therefore, deductible from the rate base of the company. However, it appears to mix two accounting items when only one is involved. There does not seem to be any actual acceleration in the depreciation of the facilities by reason of the amortization authorized in the Internal Revenue Code and therefore, there is sound argument for not altering normal depreciation charges.

[1-3] The fourth method seems to meet the problem better than any of the above. It contemplates normal depreciation expense on the defense facilities, a charge to "Provision for Deferred Income Taxes" and a credit to "Reserve for Deferred Income Taxes" during the amortization period, and a charge to that Reserve and a credit to "Current Income Taxes Deferred in Prior Years" after that period has elapsed. This credits to the income statement in later years the dollar amounts charged thereto during the initial period and eliminates any distortion of earnings.

The company initially discussed the propriety of carrying the deferred taxes in a restricted earned surplus account rather than in the Reserve for Deferred Income Taxes. This accounting would not be objectionable for unregulated industry, but for a regulated utility the restricted surplus would

RE GEORGIA POWER CO.

increase the capitalization of the company during the period of accounting for the deferred taxes. This increased capitalization might be viewed by stockholders and claimed by the company as capital on which a return was deserved. Since the deferred taxes will provide capital funds at no cost to the company, the recording of the item should not be included in the company's capitalization.

Since the company must elect whether or not to claim the amortizations authorized by the certificates of necessity, it seems appropriate at this time to conclude what treatment will be given the deferred tax item in rate proceedings.

Inasmuch as the funds (which will be used for capital expenditures) are supplied at no interest or dividend cost to the company, it is proper that no return on such balances be provided. On an invested capital rate base the item is excluded, by being a reserve rather than a restricted earned surplus balance. On a plant and equipment rate base the item will be deducted (similar to the deduction of the depreciation reserve) if the funds so provided are invested in plant and equipment, materials and supplies, or necessary working capital.

Under this treatment the amortization of defense facilities appears to be in the public interest. It is estimated that some \$19,500,000 of added capital funds will be made available over the 5-year period from tax deferments, to be paid in future years. This amount of capital would have to be raised from the issuance of securities if it were not available from deferred taxes. The amortization, therefore, should reduce security issuance re-

quirements by a maximum of \$19,500,000 after five years and lesser amounts thereafter. This results in a lesser earning requirement for the company than if additional securities were issued, and consequently lower rates for service than would otherwise be required. Furthermore, credits to income in the post-amortization period will be considered as earnings of the company for rate-making purposes.

There appear to be two conditions which should be prescribed. One is that the full amount of credits to the Reserve for Deferred Income Taxes should be credited back to income after the amortization period. The other condition is that the accounting for the deferred taxes should not be spread over an unusually long period of time. Some of the facilities certified have an estimated service life of over seventy years (hydro plants) and it does not seem wise to maintain the reserve for such an extended period of time. Moreover, the remaining balances during later years will become relatively insignificant due to the clearing of balances related to facilities of shorter life. This order will, therefore, stipulate such conditions.

After careful consideration of this matter it is the opinion of the Commission that the accounting treatment proposed should be prescribed.

Wherefore, it is,

Ordered (a) That the company shall account for property in respect of which said certificates of necessity are issued in the same manner as other property of the company and shall accrue depreciation of such facilities on its books at the normal rate of depreciation.

(b) That the company shall charge,

GEORGIA PUBLIC SERVICE COMMISSION

during the period the amortization of emergency facilities results in reduction of income taxes to "Provision for Deferred Income Taxes" as a sub-account under Account 507, Taxes, and shall credit to "Reserve for Deferred Income Taxes," an amount equal to the reduction in income taxes arising out of accelerated amortization in excess of normal depreciation allowable for income tax purposes.

(c) That the company shall charge, during the period the accelerated amortization of emergency facilities results in increased income taxes, to "Reserve for Deferred Income Taxes" until such reserve is exhausted and shall credit to "Current Income Taxes Deferred in Prior Years," a sub-account under Account 507, Taxes, an amount equal to such increase in income taxes, except as modified below.

Ordered further that the maximum period over which the reserve may be maintained is thirty years on each item from and including the year of first accelerated amortization claimed for income tax purposes, and that to accomplish this the credit to income in each year after the initial 5-year amortization period shall not be less than the amount necessary to maintain the cumulative income credits in the post-amortization period at not less than 4 per cent per annum of the original aggregate balance for the number of years in which credits to income have been made.

Ordered further that with each annual report to the Commission Georgia Power Company shall file a statement showing for the accounting period in question and for each certificate of necessity the normal depreciation expense assignable thereto, the amortization claimed for tax purposes, the resulting tax deferment, and the accounting for these tax deferments.

Ordered further that the "Reserve for Deferred Income Taxes" shall be set forth as a separate reserve on all published balance sheets of the company with an appropriate note relative thereto explaining the source and ultimate disposition of the reserve balance.

Ordered further that at no time shall all or any portion of the reserve balance be transferred to any surplus account of the company.

Ordered further that in future rate proceedings before this Commission whether they be on application of the company or on motion of the Commission, claimed rate bases shall exclude amounts provided through the deferment of income taxes under § 124-A of the Internal Revenue Code, unless otherwise ordered by the Commission at that time.

Ordered further that the Commission retains jurisdiction of this proceeding for the purpose of issuing any further orders which seem meet and proper.

FLORIDA RAILROAD AND PUBLIC UTILITIES COMMISSION

Re South Atlantic Gas Company

Docket No. 3613-GU, Order No. 1864
January 22, 1953

APPPLICATION by gas company for authority to increase gas rates; granted.

Rates, § 257 — Scope of increase — Consumer blocks — Special categories.

A gas company entitled to a rate increase should spread the increase over all consumer blocks rather than limit it to certain categories of service.

APPEARANCES: LeRoy B. Giles and James C. Robinson, Orlando, appeared for the applicant; Mrs. Lucille H. Fair, Orlando, appeared for herself as protestant.

By the COMMISSION: The South Atlantic Gas Company has applied to this Commission for an increase in certain of its rates and charges at Orlando, Winter Park, and St. Augustine, Florida. The company is incorporated under the laws of the state of Georgia, is qualified to do business in the state of Florida, and is a public utility within the meaning of Chap 26545, Laws of Florida, Acts of 1951. It is engaged in the manufacture, sale, and distribution of manufactured gas at Orlando, Winter Park, and St. Augustine, Florida, and at Savannah, Georgia. In addition, it conducts merchandising and jobbing business in Savannah and Orlando. In its petition the utility contends that the rates presently in effect fail to yield an adequate or reasonable return upon the property used and useful in furnishing service to the public. In order to partially meet this deficiency the petition-

er has requested an increase of 50 cents for the first 500 cubic feet, or less per month, with an increased minimum charge of 50 cents per month at Orlando and Winter Park. The applicant also proposes to increase the large commercial service rate at Orlando and Winter Park by 5 cents on the first 10,000 cubic feet, with a minimum charge increase of 50 cents per month. These rates are all subject to a fuel adjustment clause. No change is proposed in any of the special contract rates at Orlando or Winter Park, or in the remaining general service and large commercial service rate at those places.

At St. Augustine the applicant proposes to increase the residential service rate by 50 cents on the first 300 cubic feet, with a minimum charge increase of 50 cents per month, but no increase in the other three categories of the residential rates. Also, at St. Augustine, the applicant seeks to increase its commercial service rates on the first 300 cubic feet, as well as its minimum charge per month, by 50 cents with no changes in the remaining commercial service rates. There are

FLORIDA RAILROAD AND PUBLIC UTILITIES COMMISSION

no special contract rates or fuel clause adjustment in effect in the utility's operations at St. Augustine.

Based upon the petitioner's separation of investment, depreciation reserve and income accounts it received a return of 3.12 per cent at Orlando and 0.988 per cent at St. Augustine. The Commission's separation of these items produced returns of 2.67 per cent at Orlando and 0.70 per cent at St. Augustine on a rate base which comprehends the depreciated original cost plus one-twelfth of the annual operating expenses and taxes. By increasing the rate base to allow 2 per cent of the average original plant in service for material and supplies, the company earned a return of 2.60 per cent at Orlando and 0.69 per cent at St. Augustine. Obviously, these rates are inadequate, unreasonably low, and confiscatory and the utility is entitled to an opportunity to earn additional revenue; in fact, more than it requested, because the increase proposed would, on our rate base, produce returns of only 4.48 per cent at Orlando and 2.56 per cent at St. Augustine, with returns of only 4.36 per cent at Orlando and 2.50 per cent at St. Augustine, if we included a 2 per cent allowance for material and supplies.

Our problem here, therefore, is not to determine whether the utility is entitled to increase its rates, but rather what rates shall be increased and which customers shall pay the in-

creased costs. It is our opinion that the minimum charges when increased as proposed, will be unreasonably high, in fact, such minimum charges would be 35 cents higher than the minimum charge of any utility under the jurisdiction of this Commission. It is our opinion, and we so find, that the minimum rates should not be increased in excess of 15 cents. We further find that the utility is entitled to an opportunity to earn the additional revenue set out in its petition and which will be produced by the increases proposed therein; however, we find that these increases should be spread over all consumer blocks and not limited to the categories set out in the petition.

Now, therefore, in consideration thereof, it is *ordered, adjudged, and decreed* by the Florida Railroad and Public Utilities Commission that the South Atlantic Gas Company, petitioner herein, be and it is hereby authorized:

1. To increase its minimum rates by 15 cents,
2. To increase its rates in all of its other consumer blocks, by sufficient amount to produce the over-all revenue increases sought in and by said petition, and
3. Said utility is directed to file herewith a schedule of rates and charges consistent with the terms of this order to become effective upon approval by this Commission.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



PG&E Invests Billionth Dollar In Construction

PACIFIC GAS AND ELECTRIC COMPANY'S unprecedented postwar expansion program has reached the billion dollar mark.

Announcement that the billionth dollar had been invested in construction since the beginning of 1946 was made in San Francisco recently by Kenneth C. Christensen, PG&E treasurer, on the occasion of the release of the company's annual report to stockholders for the year 1952.

"The company's books now show that near the end of February the billionth dollar was spent on postwar expansion," Mr. Christensen said. "That means," he added, "that since January 1, 1946, we have invested an average of \$140 million a year in construction—or approximately \$385,000 every day in slightly over seven years."

According to the announcement, the magnitude of PG&E's postwar expansion is unparalleled in the history of the gas and electric utility industry. Since the end of World War II the company has more than doubled its generating capacity and by the end of 1955 will nearly have trebled it. The construction program also has included vast expansion of the company's natural gas system.

The company will continue to carry on its construction program at approximately the same rate for the next several years, Mr. Christensen said. Projects under construction or planned for completion by the end of 1955 represent nearly a half-billion dollars more in new facilities. Projects planned beyond 1955 are being engineered and they include, beside substantial amounts of new steam-electric capacity, a number of new hydroelectric plants in the Sierra and Cascade ranges.

Atlantic City Steps-up Expansion Program

IN order to keep pace with the rapidly expanding economy of southern New Jersey, the Atlantic City Electric Company has found it necessary to revise its long-range planning program, according to B. L. England, president.

Construction projects planned in 1957 have been moved forward from one to two years. The company's 1953-54 construction program calls for completion of a 75,000-kilowatt turbo generating unit, building of a new 132,000-volt transmission line and conversion to 132,000 volts of one of the utility's existing 66,000-volt circuits.

G-E Appointment

HORACE S. HUBBARD has been appointed manager of the transformer laboratories department in the General Electric Company's transformer and allied products division, Pittsfield, Mass. The appointment was announced by Francis E. Fairman, Jr., vice president and manager of the division.

Mr. Hubbard, who has twice been a Coffin Award winner, was manager of power transformer engineering until his latest appointment.

R-R Issues Booklet on Tabulator Typewriter

NEW speed and ease in statistical typing through the use of the 10-Key Tabulator Electric Typewriter is the subject of a new folder released by Remington Rand Inc. This four-page folder describes a faster way to perform columnar tabulation for billing and statistical work.

Write Remington Rand Inc., 315 Fourth avenue, New York 10, New York, for a free copy of booklet No. RE8500.

Servel Appoints Utility Manager

C. A. STOCKHOFF has been appointed Servel's southwestern public utility manager, it was announced recently by A. E. Lee, manager of the company's public utility division.

In his new post Stockhoff will contact public utility executives in Wyoming, Colorado, Kansas, New Mexico, Oklahoma, and Texas. He will make his headquarters in Servel's southwestern regional office at Dallas.

Cope Issues Catalog Of Complete Line

T. J. COPE, INC., Philadelphia, for more than 65 years, manufacturers and suppliers of cable installation equipment have issued a new

(Continued on page 26)

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catalog illustrating and describing their complete line. Designated Catalog No. 65, it is a buying guide for users of such equipment due to the wide selectivity offered. It contains 40 information-packed pages and will be sent upon request to buyers and users of cable installation equipment.

Richard Stone Joins William Wallace Co.

RICHARD L. STONE, formerly with the American Gas Association in Cleveland, has accepted a position as research engineer with the William Wallace Company, manufacturers of Metalbestos gas vent pipe.

Mr. Stone assumed his new position effective March 1st and will work from the company's head office in Belmont, California. Previous to joining the William Wallace organization, Mr. Stone was a Senior Research Engineer with the AGA Laboratories Research Department where, for the past seven years, he has conducted and supervised various research projects sponsored by the gas industry.

Cleveland Elec. Illuminating to Spend \$36,000,000

CLEVELAND ELECTRIC ILLUMINATING COMPANY expects to invest \$36,000,000 this year in expansion improvements and replacements of service facilities throughout the Cleveland-northeast Ohio area, according to Elmer L. Lindseth, president. Expenditures in 1952 totaled \$34,644,000.

Since V-J day, the company has been engaged in the greatest expansion program in its history. Over the past seven years, from 1946 through 1952, it has spent \$156,000,000 on this program, which has raised the present total investment in property and plant to \$323,000,000.

\$20,000,000 Program Planned By Kansas City P.&L.

KANSAS CITY POWER & LIGHT COMPANY plans to spend about \$20,000,000 for this year's construction program, according to Harry B. Munsell, president. The major projects include about \$6,150,000 for completion of the third generating unit at the new Hawthorn station and the start of work on a fourth unit of 100,000 kilowatt capacity. Construction expenditures in 1954 also will be about \$20,000,000, with over \$7,000,000 of this amount programmed for the Hawthorn station.

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Houston L.&P. Has \$65,000,000 Program

HOUSTON LIGHTING & POWER COMPANY plans to spend \$65,000,000 on new construction during 1953 and 1954, according to a recent announcement.

The construction program calls for the expenditure of \$28,000,000 this year and \$37,000,000 in 1954.

A-C Releases New Distribution Transformer Bulletin

FEATURES of Allis-Chalmers distribution transformers in ratings of 167 kva and smaller, 15,000 volts and below, are described in a new bulletin recently released by the company.

The bulletin illustrates production of transformer coil, core and tank construction and the steps taken in final testing, painting and crating of the completed unit.

Included in the bulletin is such mechanical information as standard low-voltage connections and high-voltage bushing arrangement along with recommended installation practice for the transformers.

Copies of the bulletin, "Allis-Chalmers Distribution Transformers," 61B6159D, are available upon request from Allis-Chalmers Manufacturing Company, 965 S. 70th street, Milwaukee, Wisconsin.

Should Cost of Capital Limit a Utility's Return?

- Here, in a pamphlet of 62 pages, are the views and opinions of well qualified authors, security analysts, gas and insurance company executives, and FPC members on the "Cost-of-Money" rate of return theory, as expressed in the pages of *Public Utilities Fortnightly*.

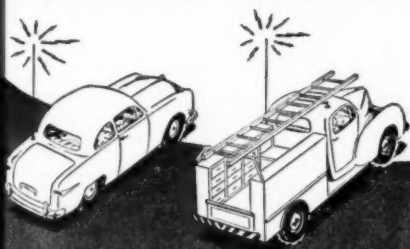
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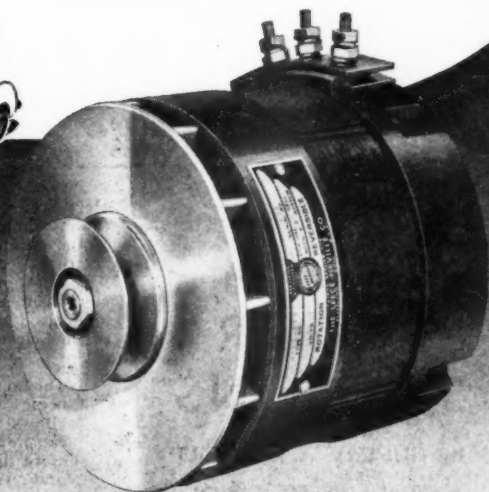
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Here is an unusually comprehensive discussion of the power plant machinery from the standpoint of construction of the various types of equipment, their performance characteristics, economics, and integration in the complete plant. The book provides engineering data on the design of the equipment, a knowledge of the economics of the efficient plant, and considerable information that will be of value in problem of the selection of equipment suitable for various purposes.

The author says in the Preface: "The treatment begins with fundamentals and develops in a way that allows the practical man as well as the student to expand his knowledge progressively through the more difficult subjects to the goal—complete integration of all machinery."

Retaining the same general plan and organization which contributed so to the success of the previous editions, the present edition of this practical book follows an especially comprehensive approach in dealing with power plant machinery. After outlining the equipment of a power plant, the book shows how each piece of apparatus or equipment is constructed, then presents its performance characteristics, and finally discusses economic and other factors of its integration with other major and minor machinery. A glance at the chapter headings will indicate how thoroughly the book covers the various elements of the steam power generating plant.

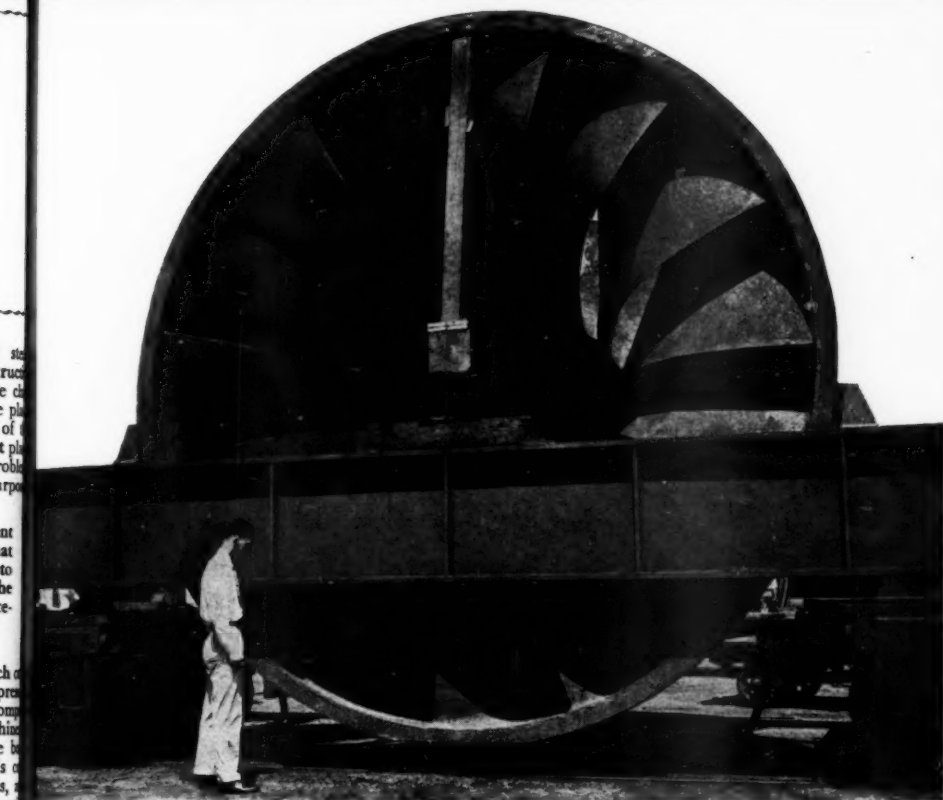
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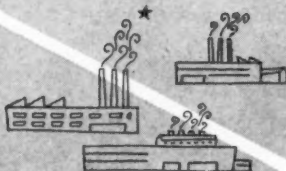
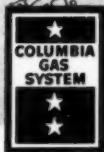
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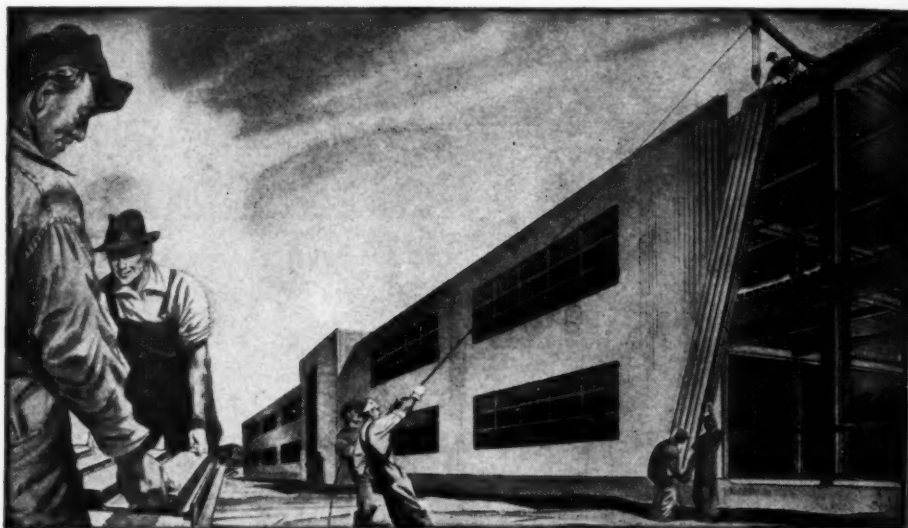
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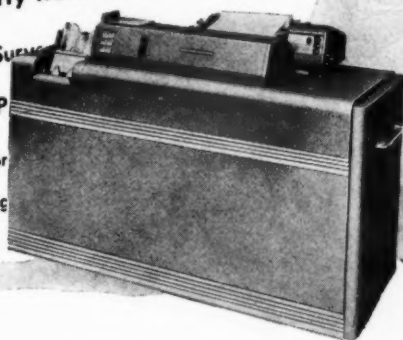


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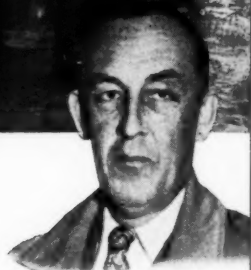
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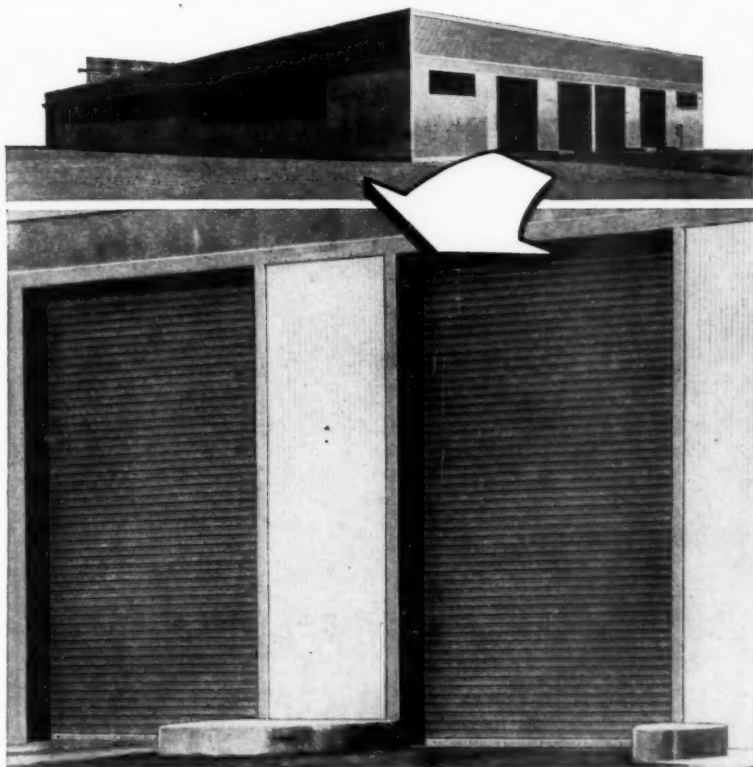
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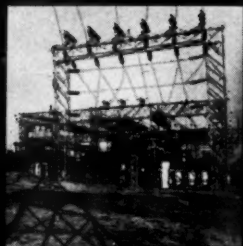
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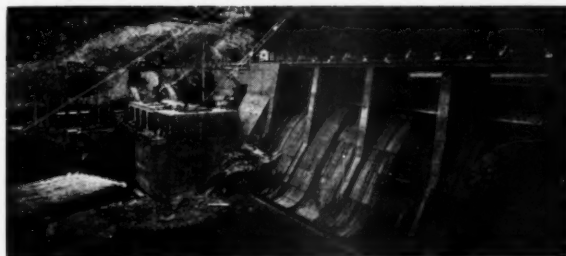
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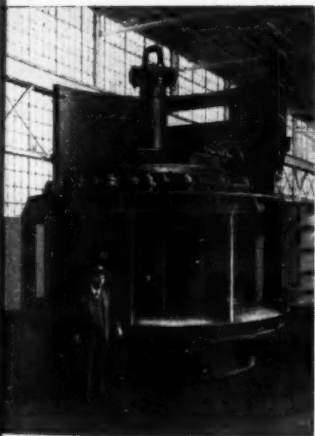


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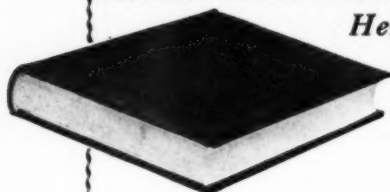


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